



Major Supplementary Budget and The Challenge for Fiscal Management

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＜Summary＞

- ◆ In 2021, the House of Representatives passed the supplementary budget for fiscal 2021 on December 15, with the general account expenditure of about 36 trillion yen. And the House of Councillors also passed it on December 20. The supplementary budget was compiled in response to the Cabinet's decision on November 19 to implement the “Economic Measures for Overcoming COVID-19 and Opening Up a New Era”, entailed a record fiscal expenditure of 55.7 trillion yen, of which 31.6 trillion yen was appropriated in the supplementary budget as expenditures in the national general account.
- ◆ The expenditure of the fiscal 2021 general account will be swollen by this supplementary budget to 142.6 trillion yen, second largest to the 175.7 trillion yen recorded in fiscal 2020, which was boosted by a series of measures to deal with the coronavirus pandemic. On the other hand, revenue increased only by a total of about 14 trillion yen, including the increase in tax revenues and a surplus in the settlement of the fiscal 2020 budget. As a result, the supplementary budget deficit has swelled to 65.7 trillion yen, up 22.1 trillion yen from the initial budget. Most of this deficit will be covered by the issuance of government bonds, meaning that the burden will have to be borne by the later generations.
- ◆ In general, supplementary budgets in Japan have been used to date for recovery from disasters or as the measures to stimulate the economy. But some experts say they are loopholes for fiscal management and administration, because they are not subject to ceilings of the expenditures. When drawing up the supplementary budget, it is necessary to consider thoroughly the necessity and the urgency of compiling the each of the expenses.

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- ◆ In FY 2020, when expenditures were significantly increased through the three times supplementary budgets, a record amount of 30.8 trillion yen was carried over in the settlement of accounts. The same situation will repeat again in the FY 2021 budget. As for the infection of the coronavirus, it is difficult to predict how rapid the situation will change, so there is a risk that the projects less important or less urgent will be carried over without review.
- ◆ Growth strategies, such as the realization of a science and technology nation, and distribution strategies, such as policies of labor, wages, and human resources, should not only be budgeted for, but should also be continuously worked on by reviewing existing systems. Therefore, it is desirable to secure financial resources systematically in the initial budget rather than in the supplementary budget. With regard to the "benefits for families with children," one of the major economic measures, it is unclear whether the purpose of the policy is to help those in need due to the coronavirus disaster or to support child rearing.
- ◆ In terms of financial resources, it is also necessary to adopt a "special tax" on a temporary basis, just as in the case of reconstruction after the Great East Japan Earthquake, for the purpose of redeeming government debt that has increased as a result of implementing measures against COVID-19.

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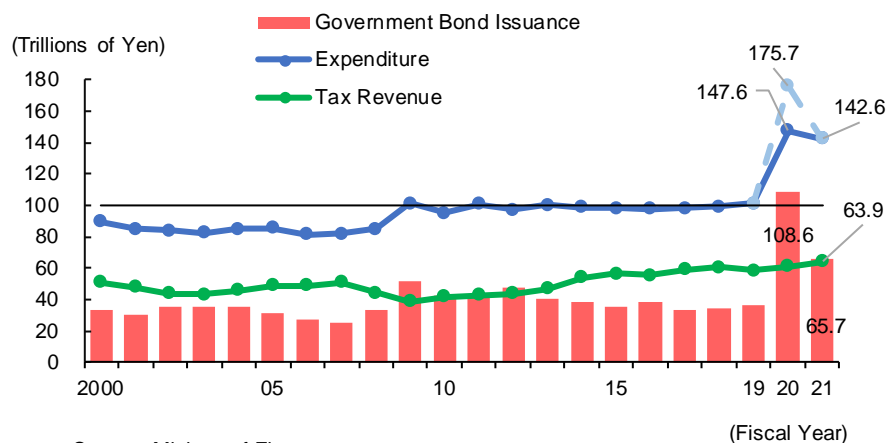
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1. Large-Scale supplementary budget in response to large-scale economic measures

In 2021, the House of Representatives passed the supplementary budget for fiscal 2021 on December 15, with the general account budget of about 36 trillion yen. And the House of Councillors passed it on December 20. This supplementary budget was compiled in response to the "Economic Measures for Overcoming COVID-19 and Opening Up a New Era" approved by the Cabinet on November 19. The scale of the economic measures totals 78.9 trillion yen, second largest to the 117.1 trillion yen recorded in the "Emergency Economic Measures to Cope with COVID-19" on April 2020. As the part of 78.9 trillion yen, fiscal spending amounts to a record high of 55.7 trillion yen¹.

Expenditures for these economic measures are to be allocated separately in the supplementary budget for FY 2021 and the budget for FY 2022. In the supplementary budget for FY 2021, 31.6 trillion yen was allocated to the general account². As a result, the expenditures (general account) in fiscal 2021 amount to 142.6 trillion yen, second largest to the 175.7 trillion yen recorded in fiscal 2020 (Figure 1), which increased due to a series of measures taken to deal with COVID-19. On the other hand, revenue has increased only by about 14 trillion yen, including a 6.4 trillion yen increase from the initial estimate of tax revenue, and 6.1 trillion yen surplus recorded in the settlement of the budget of fiscal 2020³. Revenues from government bonds, which are roughly equivalent to the fiscal deficit, will increase by 22.1 trillion yen from the initial budget to 65.7 trillion yen, second largest to the 108.6 trillion yen recorded in fiscal 2020.

Figure 1. Trends in General Account Expenditures, Tax Revenues, and Government Bond Issuance



Source: Ministry of Finance

Note: Dashed lines for FY 2020, supplementary budget for FY 2021, and other accounts

¹ The sum of the national and local governments and fiscal investment and loans program (FILP).

² In addition, there was an increase of 4.4 trillion yen in local allocation tax grants due to an increase in tax revenue from the initial projection, and the general account as a whole increased by 36 trillion yen.

³ Of the total, 2.3 trillion yen will be transferred to the special account of the National Debt Consolidation Fund to finance the redemption of government bonds.

2. Problems with the supplementary budget, substantially a loophole in the initial budget

Generally in Japan, supplementary budgets have been formulated to respond flexibly to the changes of the economy and society occurred after the initial budget compiled and to the emerging new policy issues. They have been utilized for recovery from disasters or as the measures to stimulate economy. On the other hand, some critics point out that supplementary budgets work as loopholes de facto in fiscal management and administration, as the government tends to underestimate the amounts of the expenses in the initial budget, and instead, increase the amount in the supplementary budget. They also say that such a trick is possible because (1) supplementary budgets are not subject to 'ceiling' which must be applied in the initial budget, and (2) supplementary budgets have become commonplace since their original purpose, such as the measures to recover from large-scale disasters or as the measures to stimulate economy, has tended to be interpreted in an expanded way. Therefore, when compiling the supplementary budget, it is necessary to consider thoroughly the necessity and urgency of individual expenses.

The supplementary budget of December 2021 has raised the concerns as follows.

The first concern is the possibility that many projects may be carried over to FY 2022. As for "expenses related to economic stimulus measures" appropriated in this supplementary budget, it appears that expenses for the response to the spread of COVID-19, such as "Development of a new coronavirus vaccine inoculation system and its implementation" (1.3 trillion yen) and "Support for restaurants etc. cooperating on shortening business hours, etc. (Local Revitalization Grant) " (6.5 trillion yen), are of urgent and temporary nature in response to this unprecedented disaster. Therefore, allocating funds flexibly through the supplementary budget can be generally considered to be appropriate (Table 1).

However, as with the current fiscal year 2021, a record amount of 30.8 trillion yen was carried over from FY 2020 when a large amount of costs for measures against COVID-19 accumulated in the supplementary budget (Figure 2). It suggests that many projects that had accumulated in the FY 2020 supplementary budget may have been carried over to FY 2021. By carrying over projects to the next fiscal year, the government may be able to avoid the negative effects, such as rushing to the end of the fiscal year to execute the budget, that have been pointed out in the past. And the government may also allot the funds of the supplementary budget if the infection of the Corona virus were to spread again suddenly. On the other hand, if the infection ceases to spread, there is a risk that projects which lack importance or urgency, may be carried over. In such cases, it is necessary to review the projects without delay, including considering their abolition.

The second concern is that there may be some expenses in supplementary budgets whose appropriateness is questionable. For example, the following expenses can be pointed out.

① Programs that should be taken on continuously

Growth strategies (6.3 trillion yen), such as the realization of a science and technology nation, and distribution strategies (2 trillion yen), the measures for labor, wages, and human resources, appear to be issues that are rooted in the current fundamentals of Japan's economic and social systems. Therefore, it is important not only to prepare a budget for them, but also to continuously review existing systems. In principle, it is desirable to allocate financial resources systematically in the initial budget.

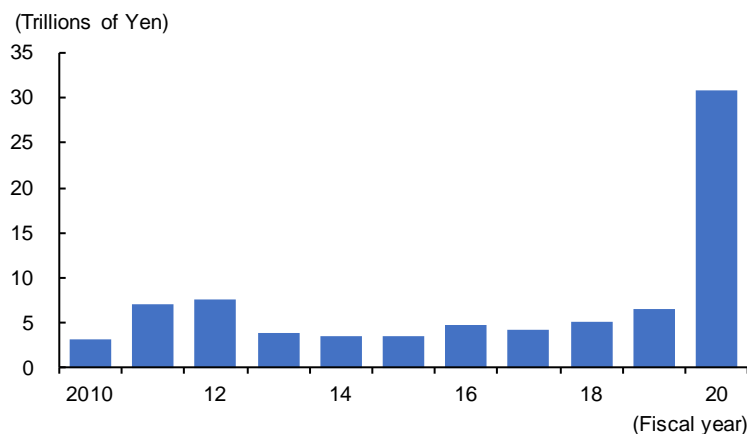
Table 1. Breakdown of Supplementary Budget "Expenditures Related to Economic Measures (31.6 Trillion Yen)"

(Trillions of Yen)

Main Measures	Budget Amount
I. Containment measures for the COVID-19	18.6
Securing the medical treatment system, etc.	4.5
Emergency comprehensive support grant for COVID-19 (securing beds, etc.)	2.0
Development of new coronavirus vaccine inoculation system and implementation of inoculation	1.3
Securing of therapeutic drugs	0.6
Support for businesses, daily life, and livelihoods	14.1
(1) Support for business	9.6
Support for reviving business	2.8
Support for restaurants etc. cooperating on shortening business hours, etc. (Local Revitalization Grant)	6.5
(2) Support for daily life and livelihoods	4.5
Benefits for households exempt from resident tax	1.4
Financial stability of employment insurance, Special measures for Employment Adjustment Subsidies, etc.	2.4
(3) Measures against soaring energy prices	0.1
II. Resumption of Socio-Economic Activities in the "Live-with-Corona" environment and preparation for the next crisis	1.8
Resumption of socioeconomic activities with ensured safety and relief	0.8
New GoTo Travel campaign	0.3
Expansion of free inspections without reservation (Local Revitalization Grant)	0.3
Fundamentally strengthening contingency plans for infectious diseases	0.9
Establishment of R & D and production systems for vaccines and therapeutic drugs	0.7
III. Launching a "New Form of Capitalism" to carve out a future society	8.3
Growth strategy	6.3
(1) Realization of a science and technology nation	1.6
University fund	0.6
Research and development and demonstration of advanced science and technology, acceleration of development in the digital field, etc.	0.5
Clean Energy Strategy to Become Carbon Neutral in 2050	0.5
(2) "Vision for a Digital Garden City Nation" to revitalize local areas and connect them to the world	3.7
Implementation of telework, drone delivery, automated delivery, and automated driving	0.1
Second launch of the My Number Point system	1.9
Strengthening export and growth potential in agriculture, forestry and fisheries industries, etc.	0.5
Strengthening the Stability of SMEs and Improving the Business Environment	1.0
(3) Economic security	0.9
Securing domestic production bases for advanced semiconductors	0.6
Program for fostering key technologies for economic security	0.3
Distribution Strategy: Strengthening human resource investment that will bring relief and growth	2.0
Benefits for families raising children	1.2
Raising the income of employees in medical nursing, elderly care, childcare services, child education, etc.	0.3
IV. Securing safety and relief with respect to disaster management	2.9
Five-year acceleration measures for disaster prevention, disaster mitigation, and national resilience, etc.	1.4
Immediate response of the Self-Defense Forces to the changing international situation, etc.	1.0

Source: Ministry of Finance

Figure 2. Changes in the Amount Carried Over to the Next Fiscal Year



Source: Ministry of Finance

② Programs with ambiguous policy objectives

The purpose of the benefits for families with children (1.2 trillion yen), which is one of the main features of the economic stimulus package of this time, is unclear as to whether they are intended to (1) provide relief to the needy in the coronavirus disaster or (2) provide support for childcare. Therefore this program seems to lack appropriateness. The family who can receive this benefit are qualified by their annual income. So even the family of which the annual household income exceeds 10 million yen, by double income, can receive this benefit. Therefore, the benefits cannot be said to be a relief measure for the needy. In fact, the supplementary budget of this time includes another program of which the purpose is to help the needy. That is the program of 1.4 trillion-yen payment for households that are exempt from inhabitant tax, as a one-time relief measure for households suffering from the coronavirus. If there is the purpose to support child rearing to be accomplished, it is essential to choose the most effective policy from a wide range of options, including policies other than benefits, rather than providing temporary support, and to make steady efforts toward the policy goal. An ad hoc response in the supplementary budget is not appropriate.

3. How to raise the necessary financial resources

(1) Raising funds by a temporary special tax to redeem government bonds to procure the expenses to cope with the coronavirus outbreak

Of the "expenses related to economic stimulus measures" appropriated in the supplementary budget of 2021, 20.4 trillion yen was allocated for the response to COVID-19⁴. There has been another programs which had already allocated for the COVID-19 pandemic, including 5 trillion yen in contingency funds earmarked in the initial budget for fiscal 2021 and additional funds in the fiscal 2020 from the 1st to the 3rd supplementary budgets⁵, which amount to 98.8 trillion yen in total. On the other hand, the total funds raised by the bond issuance in

⁴ Total of "Containment measures for COVID-19" (18.6 trillion yen) and "Resumption of socioeconomic activities in the "Live-with-Corona" environment and preparation for the next crisis" (1.8 trillion yen)

⁵ "Expenses related to the Emergency Economic Package against COVID-19" (25.6 trillion yen) in the first supplementary budget for FY 2020,

the supplementary budgets of fiscal 2020 and fiscal 2021 amount to 102 trillion yen. So it can be said that expenses related to the COVID-19 response is covered by the issuance of government bonds. Piling up debts was surely inevitable to address this unprecedented disaster that may have affect people's lives otherwise. But if they are left unaddressed, concerns over future fiscal management will remain; early redemption is required.

In this regard, the scheme of the reconstruction bonds issued to raise the funds for reconstruction following the Great East Japan Earthquake would be helpful. The government planned to use proceeds from the sale of government-held stocks and tax revenue from the special reconstruction tax, which was introduced on a temporary basis, to redeem this reconstruction bonds by fiscal 2037 without following the 60-year redemption rule of JGBs. With regard to the special reconstruction tax, the special reconstruction corporation tax was imposed on corporations from 2012 to 2014 immediately after the Great East Japan Earthquake, and the special reconstruction income tax on individuals was introduced in 2013 and will remain until 2037. As in the case of the Great East Japan Earthquake, the Special Tax on Coronavirus Reconstruction should be introduced now on a temporary basis for the expenses of highly urgent measures to deal with a major disaster, such as preventing the spread of infectious diseases and responding to COVID-19. As for the funding of the reimbursement of this Reconstruction Bonds, additional revenues from raising the rate of income tax, for example, may be allocated to the expenses related to vaccination and medical system development. And additional revenues from the raising the rate of corporate tax may be allocated to the expenses related to measures for business operators, including subsidies for shortening-business-hours.

(2) Securing sources of revenue within the social security system

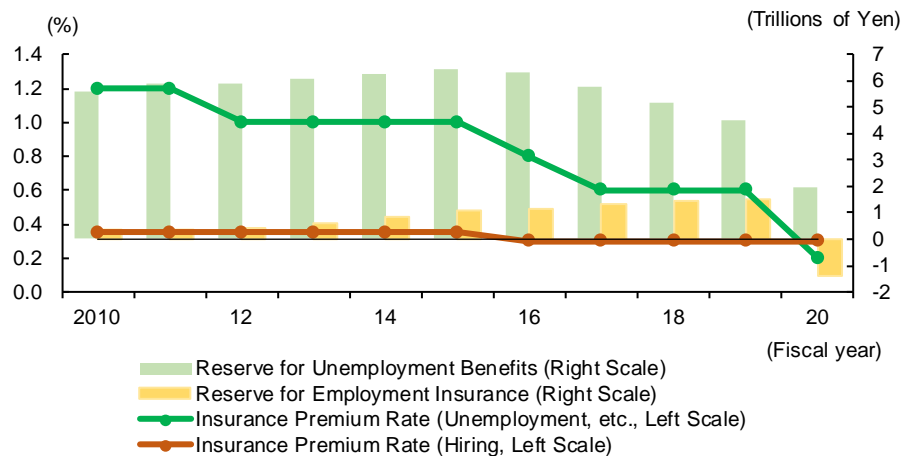
In some programs to address the infection of the COVID-19, the general account is used to secure financial resources which primarily have to be secured within the social security system. For example, the Employment Adjustment Subsidy is primarily a system that provides a part of leave allowance to employers who make employment adjustments using insurance premium income from employers. Nonetheless, in response to the coronavirus disaster, certain amount of funds were transferred from the general account not only as financial resources of the new special benefits in the COVID-19 pandemic, but also to fulfill the shortage of the Employment Stabilization Reserve Fund, that was enabled by the "temporary special law" enacted in 2020. In addition, it has become possible to borrow from the reserve fund for unemployment benefits, which is a separate account, and this has led to a rapid decrease in the reserve fund balance for unemployment benefits (Figure 3).

In addition, the supplementary budget of 2021 includes the expenses related to raising the income of nurses and nursing care workers. The policy, expensed as part of a "distribution strategy," aims to continuously raise the wages of these workers rather than providing them with temporary benefits.

The costs of such policies should be secured within the social security system. That must be the original mechanism of the social security system. To achieve that purpose, first of all, it is necessary to raise (restore) immediately the employment insurance premium rate which had been lowered in response to an increase in the balance of reserve funds in the period of economic expansion in the 2010s.

"Expenses related to coping with COVID-19" (31.8 trillion yen) in the second supplementary budget, "Containment measures for COVID-19" (4.4 trillion yen) and "Promoting structural change and positive economic cycles in the Post-Corona era " (11.7 trillion yen) in the third supplementary budget.

Figure 3. Unemployment Benefits and Employment Insurance Reserve Balances and Insurance Premium Rates



Source: the Ministry of Health, Labour and Welfare

Note 1: The premium rate for unemployment insurance in FY 2020 (unemployment, etc.) does not include the employment insurance premium rate for childcare leave benefits (0.4%).

Note 2: The negative figure for FY 2020 is the amount borrowed from the reserve fund for unemployment benefits (1.4 trillion yen).

Financial resources for increasing the income of nurses and workers in nursing care should be secured within the medical insurance system and the nursing-care insurance system, rather than relying on the general account. Nurses should be paid more by raising their share of labor in the medical care system, for example by reviewing the distribution to doctors whose annual income is remarkably higher than other occupations in the system, not by raising our burden of insurance premiums. To improve the accommodation of the workers in nursing care, allocation of resources within the nursing care system should be reviewed at first. If it were inevitable to raise the rate of the insurance premium of the nursing care system, for the rate of the insurance premium of the medical care system should be lowered instead, through adjusting the burden among the medical and nursing care systems. An increase in the total burden of insurance premiums for medical and nursing care should be avoided. Despite the considerable difficulties involved with such coordination, it's politics that should make its presence.