Japan's Public Debt: Facing an Ageing and Shrinking Population

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Introduction

This paper[1] presents an overview of Japan's public debt as well as of the Government's efforts to deal with that debt in the face of changes in social and economic structures. As is widely known, Japan's population is ageing faster than any other in the world. Social security expenditures have increased as the population ages and shrinks, and this is one of the main factors in the growth of Japan's public debt. How has Japan managed to avoid a public debt crisis until now despite such a large public debt? Major factors include fiscal space, household financial assets, and the Bank of Japan's monetary policy.

Although the Japanese government raised the combined national and local consumption tax from 5% to 8% in April 2014, it has twice postponed a planned further increase to 10% and has rescheduled targets for fiscal consolidation.

I Changing social and economic structures in Japan

1 *Ageing and shrinking population*

Japan's population is ageing more rapidly than any other major developed country, due primarily to a declining birthrate and extended life expectancy. Figure 1 shows historical and projected trends in the proportion of the population aged 65 or older among G7 member countries from 1950 to 2050. Japan is predicted to exceed 35% by 2050, which is expected

* The information on the Internet in this paper was finally found accessible on June, 29, 2018.

[1] This paper is in line with National Diet Library Milestone Goals 2017–2020, 1-(2) Support to the Diet: Enhancement of research by strengthening external cooperation. The author refers publications (in Japanese) for the members of Japanese Diet written by the Research and Legislative Reference Bureau, the National Diet Library.

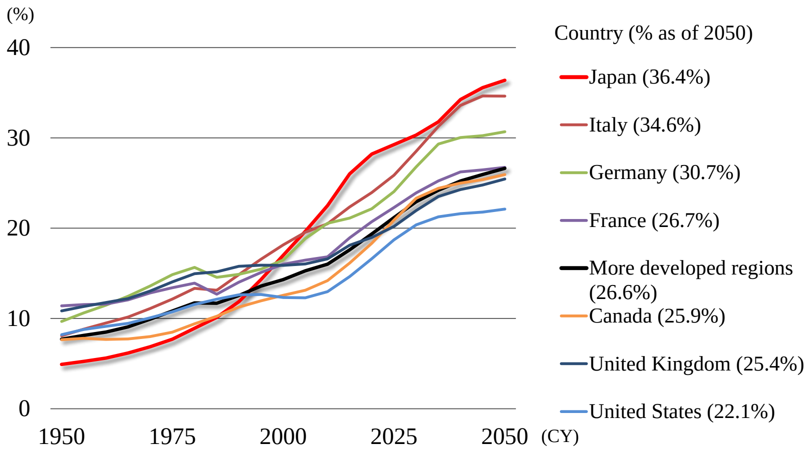

Figure 1 Proportion of population aged 65 or older from 1950 to 2050

Source: Created by the author using the United Nations, *World Population Prospects: The 2017 Revision*.

to outstrip even Italy at 34.6% and Germany at 30.7%. Figure 2 shows total population in Japan. Having peaked at 128 million people in 2008, Japan's population is now shrinking and is predicted to fall to 93 million people by 2060, which would be less than three-quarters of that peak. Population composition is shown in Figure 3 and indicates that the segment aged 0-14 has been decreasing almost constantly since 1950, the segment aged 15-64 began to decline after 1995, and the segment aged 65 or older will continue to increase until 2042. As a result, the ratio of the segment aged 15-64 to the segment aged 65 or older was 12.1 to 1 in 1950, 2.3 to 1 in 2015, and is predicted to be 1.3 to 1 by 2065. Main support for the social security system comes from the working population, aged 15-64, so ensuring a stable source of revenue for social security remains an important issue.

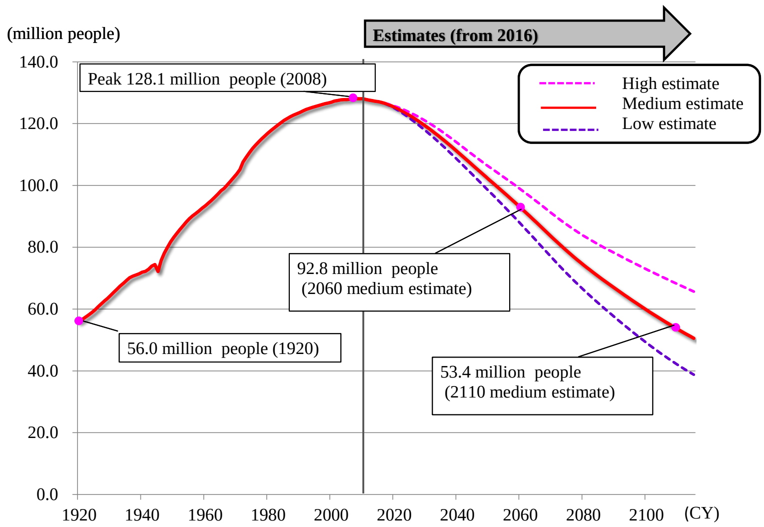

Figure 2 Total population from 1920 to 2100

Source: Created by the author using *Cabinet Office Annual Report on the Aging Society (2017)*, p. 5.

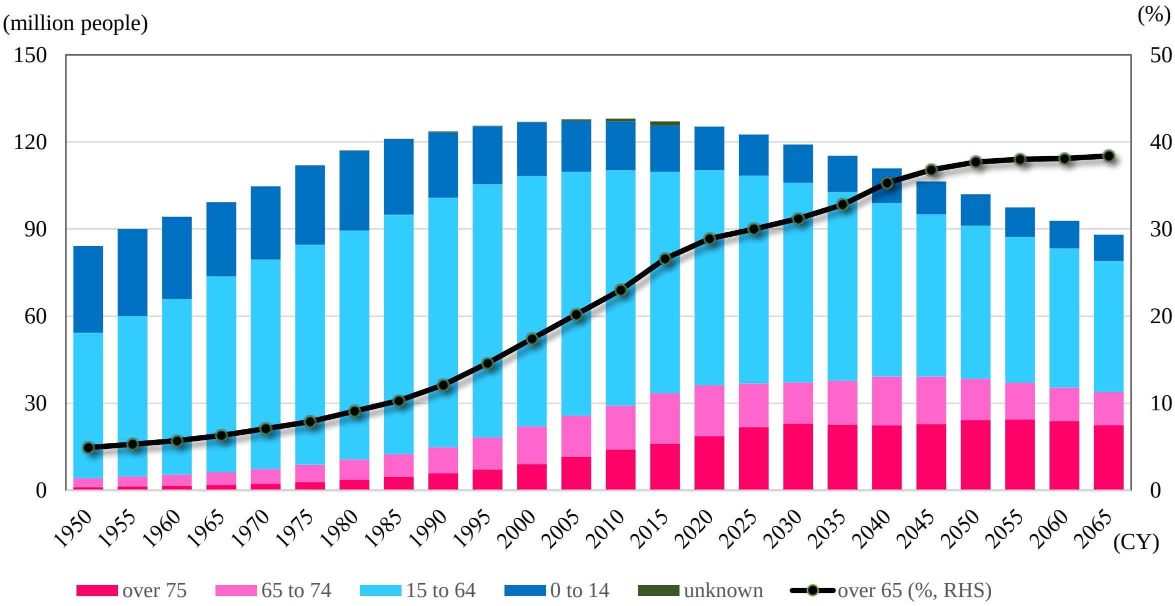

Figure 3 Population composition from 1950 to 2065

Note: Estimated fertility rates for 2065 are 1.65 (high), 1.44 (medium), and 1.25 (low).
Sources: Created by the author using National Institute of Population and Social Security Research, *Population Projection for Japan (April 2017)*, etc.

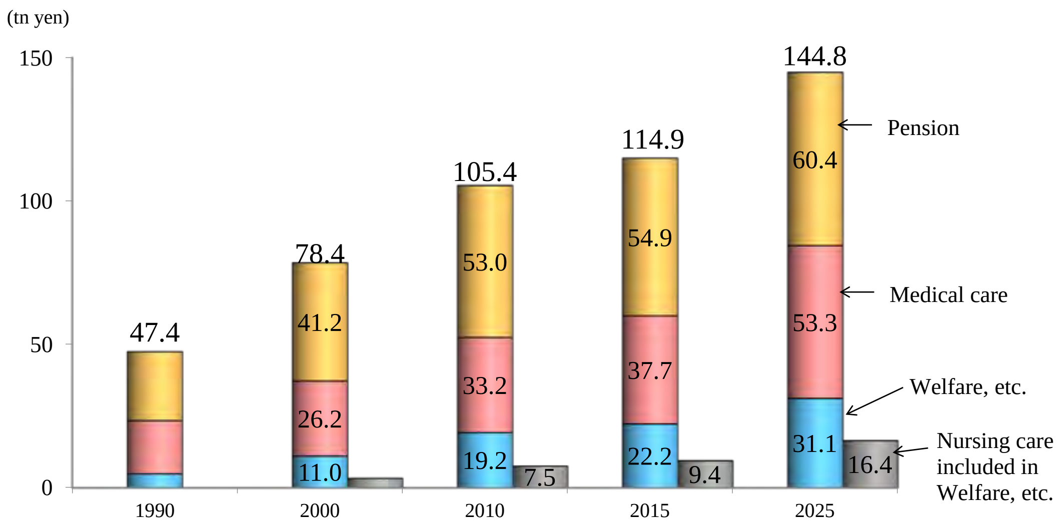

Figure 4 Social security costs from 1990 to 2025

Source: Created by the author. Data up to FY2015 from the National Institute of Population and Social Security Research, *The Financial Statistics of Social Security in Japan FY 2015*. Data for FY2025 from the Ministry of Health, Labour and Welfare, *Shakai Hosho ni Kakaru Hiyo no Shorai Suikei no Kaitei ni Tsuite (Heisei 24-nen 3-gatsu)*.

2 *The growing cost of social security*

As seen in Figure 4, the cost of providing social security benefits has and will continue to increase significantly. In recent years, the cost of pensions as well as of medical and nursing care have risen due to the so-called Year 2025 Problem.

The Year 2025 Problem refers to the fact that the baby-boomer generation, born between 1947 and 1949, will become 75 years old in 2025, which will significantly increase the costs of medical and nursing care. With these baby boomers having already reached the retirement age of 65, pension costs have already increased severely.

3 *Economic slowdown and secular stagnation*

Japan enjoyed high economic growth during the period from 1950 to the oil shock in 1973, followed by a stable growth rate culminating in the bubble economy of the late 1980s. Since the collapse of the bubble economy in the early 1990s, Japan has struggled with secular stagnation, as seen in Figure 5.

In order to tackle the recession that followed the collapse of the bubble economy, the Government employed fiscal policies that repeatedly involved expenditure on public investments and tax cuts to stimulate the economy, but depended on government bonds rather than tax revenues to fund this expansion of public spending.

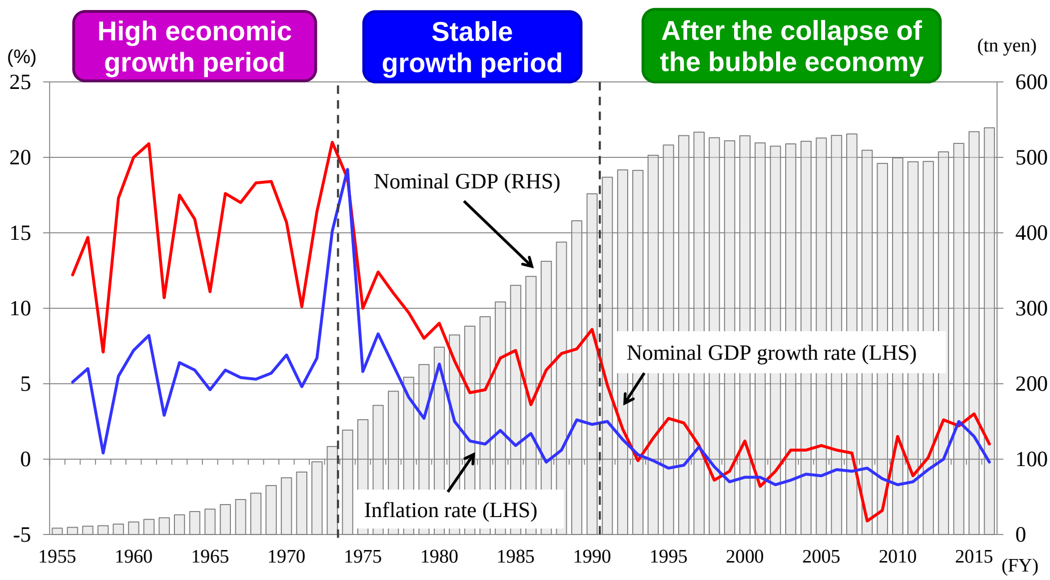

Figure 5 GDP and inflation rate from 1955 to 2015

Source: Created by the author using *Cabinet Office National Accounts*.

II The current state of national finances

1 *Fiscal trends*

As seen in Figure 6, from 2003 to 2018, government expenditure exceeded tax revenue. Up until 2007, efforts to maintain fiscal soundness while achieving economic recovery helped to improve fiscal balance. Since the financial crisis of 2008, however, the gap between expenditure and revenue has once again widened, largely due to lost tax revenue caused by bad economic conditions combined with increased government spending intended to provide a fiscal stimulus. The 2014 increase in consumption tax and a moderate economic recovery has lately improved the fiscal balance.

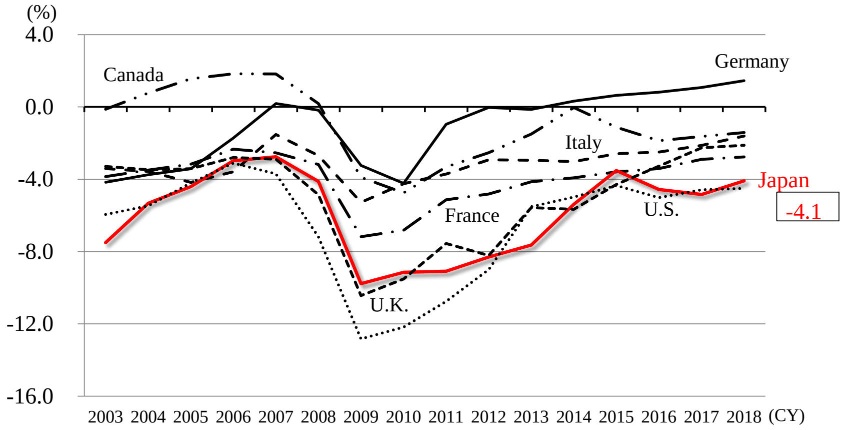

Figure 6 General government fiscal balance to GDP ratio from 2003 to 2018

Source: Created by the author using *OECD Economic Outlook*, No. 102, November 2017, p. 289.

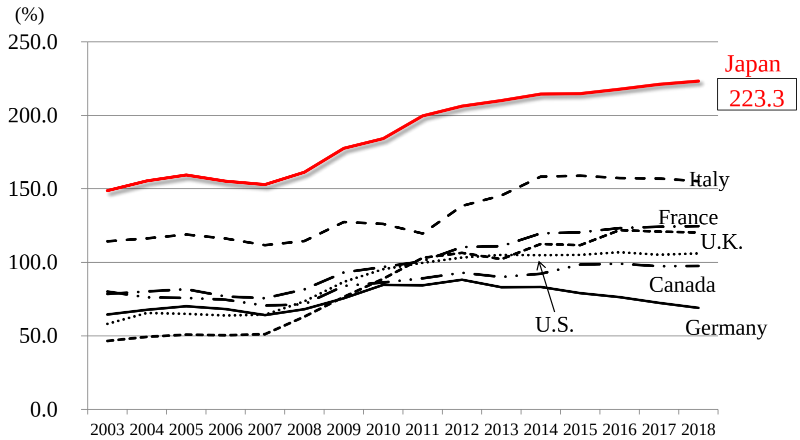

Figure 7 General government gross debt to GDP ratio from 2003 to 2018

Source: Created by the author using *OECD Economic Outlook*, No. 102, November 2017, p. 294.

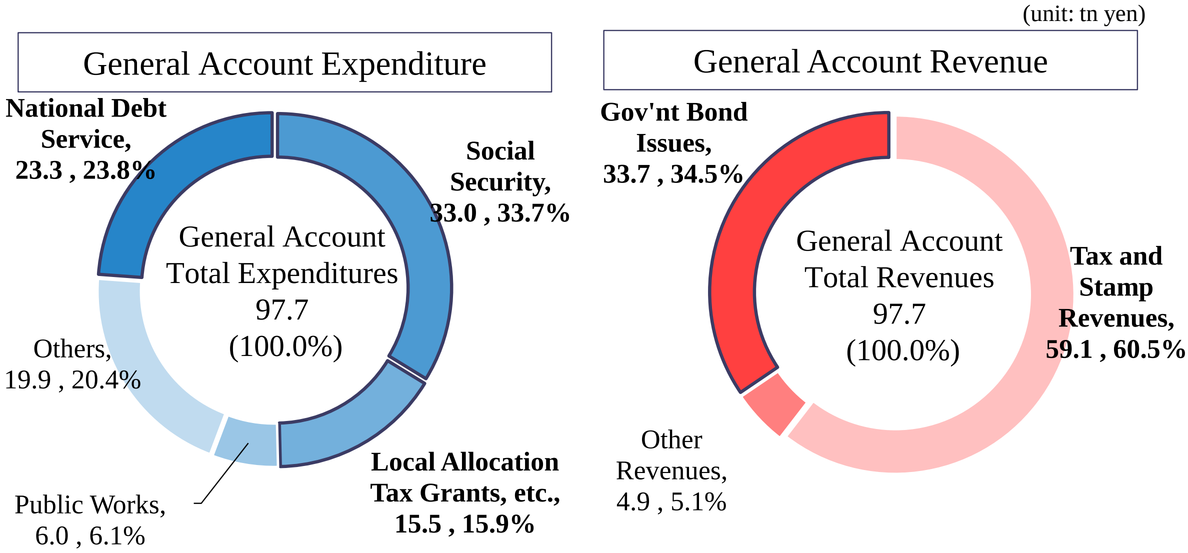

Figure 8 General government net debt to GDP ratio from 2003 to 2018

Source: Created by the author using *OECD Economic Outlook*, No. 102, November 2017, p. 295.

Although Japan's fiscal balance has improved, Figure 7 shows that gross debt grew from about 150% of the nominal GDP in 2003 to what is estimated to be 223% by the end of 2018, by far at the highest level among G7 member countries and even worse that the 182% of the Greek government.

Some economists insist that the severity of Japan's public debt problem is exaggerated, and that government debt outstanding is not so high when viewed on a net basis.[2] As shown in Figure 8, the net debt is expected to be about 131% by the end of 2018, which is certainly much smaller than the gross debt. Even this figure, however, is the worst among the G7 countries, and Japanese general government assets include a large volume of pension insurance premiums that must be paid out in the future. Seen from this perspective, the true magnitude of Japan's public debt problem is best evaluated on a gross rather than net basis.

2 *FY 2018 Budget*

Figure 9 shows Japan's central government expenditure and revenue as budgeted for fiscal 2018.[3] National debt service accounts for 23.8%, social security accounts for 33.7%, and local allocation tax grants transferred to local governments account for 15.9% of total

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[2] For example, TAKAHASHI Yoichi, "Tokushu: Kensho naki Nichigin: Kuroda Nichigin 3 Nen no Hyoka: 70 Ten," *The Weekly Economist*, 94(17), 19 April, 2016, pp. 81-82. He also insists that Japan's public debt can be lower to consolidate with the Bank of Japan that holds Japanese Government Bonds.

[3] Concerning FY 2018 Draft Budget as was approved with no change, see TAKEMAE Nozomi, "Outline of the Draft Budget for FY2018," *Issue Brief* (Chosa to Joho), No. 995, 30 January, 2018. As for the budget procedure, see Enrico D'Ambrogio and Matthew Parry, "Japan's National Budget: Procedure and the Public Debt Burden," *Briefing*, February 2016.

expenditures. These three largest budget items comprise more than 70% of total expenditures. In contrast, tax and stamp revenues account for only 60.5% and Government bond issues account for as much as 34.5% of total revenues.

Figure 10 shows a trends of the difference between expenditure and tax revenue of central government. They split wider and wider since 1990's after the collapse of the bubble economy. They say that Japan's expenditure and revenue splits like a mouth of crocodile.

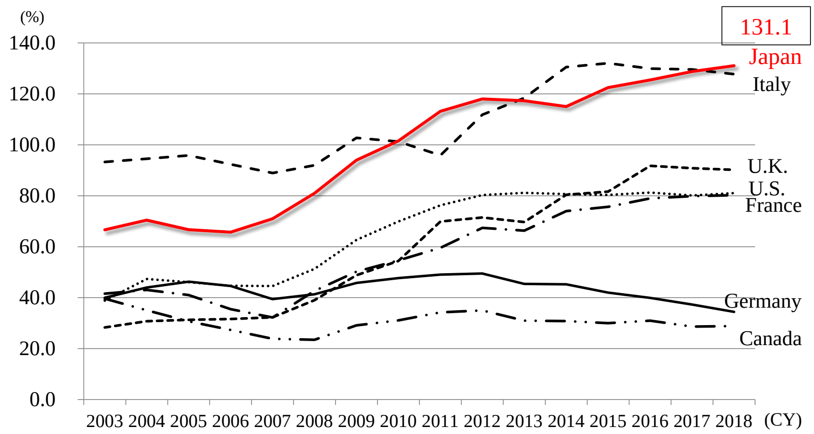

Figure 9 Central government budget for FY2018

Source: Created by the author using Ministry of Finance, *Highlights of the Draft FY2018 Budget*, December 22, 2017, p. 5.

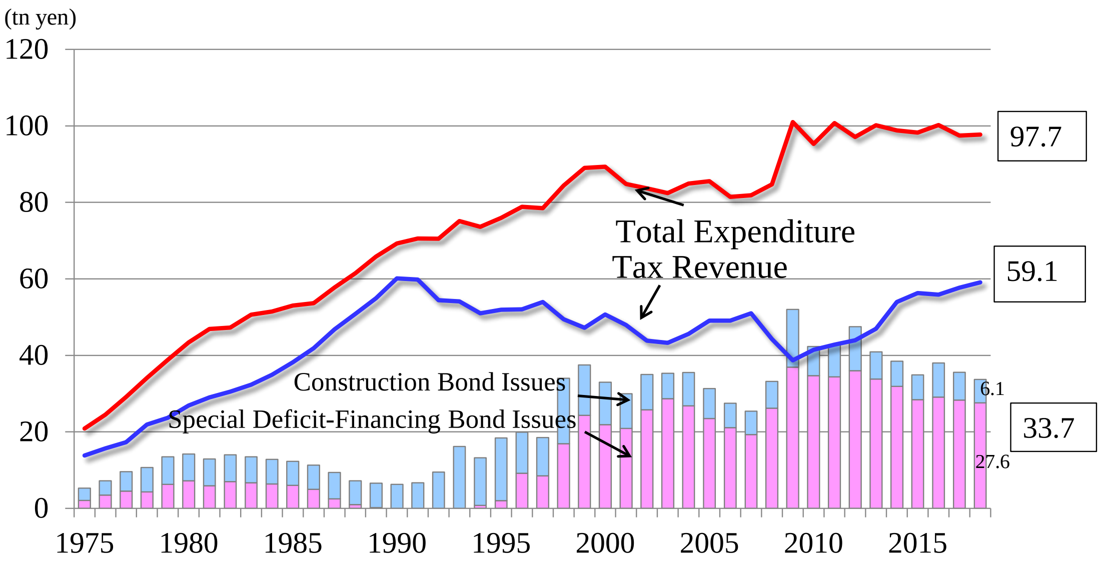

Figure 10 Central government tax revenues, expenditures, and bond issues from 1975 to 2018

Note: FY1975-FY2016 are settled figures, FY2017 is based on the supplementary budget, and FY2018 is based on a draft budget

Source: Created by the author using Ministry of Finance, *Public Finance Statistics Book (FY2018 Draft Budget)*, December 2017, p. 2.

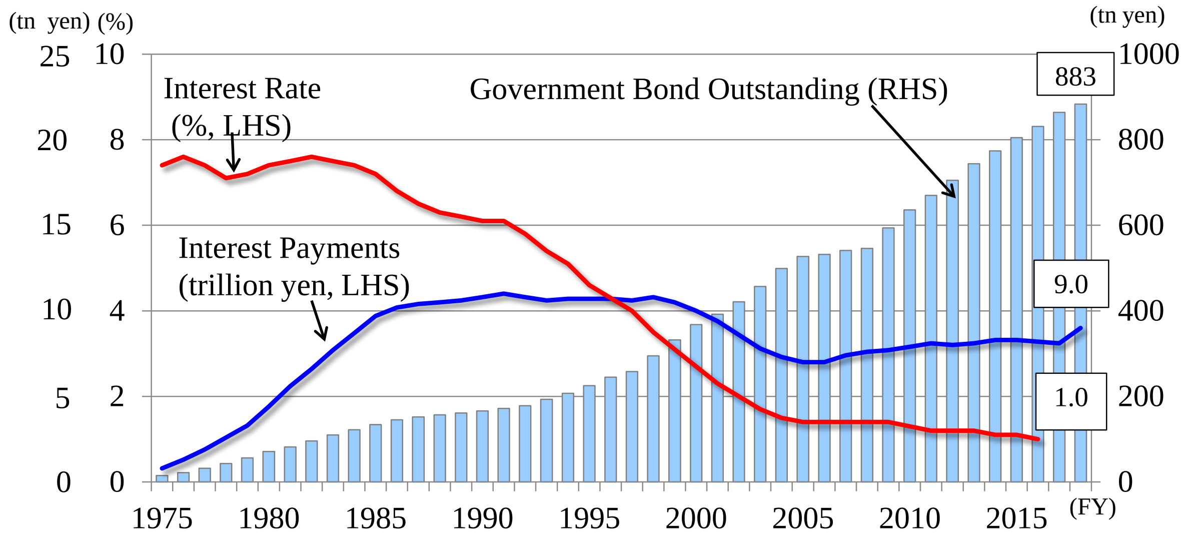

Figure 11 Changes in interest payments and interest rate from 1975 to 2018

Note 1: Interest payments FY1975-FY2016 are settled figures, FY2017 is based on the supplementary budget, and FY2018 is based on a draft budget.
Note 2: Government bonds outstanding FY1975-FY2015 are actual, FY2016 is an estimate, FY2017 is based on an initial budget, and FY2018 is based on a draft budget.
Source: Created by the author using Ministry of Finance, *Public Finance Statistics Book (FY2018 Draft Budget)*, December 2017, p. 6.

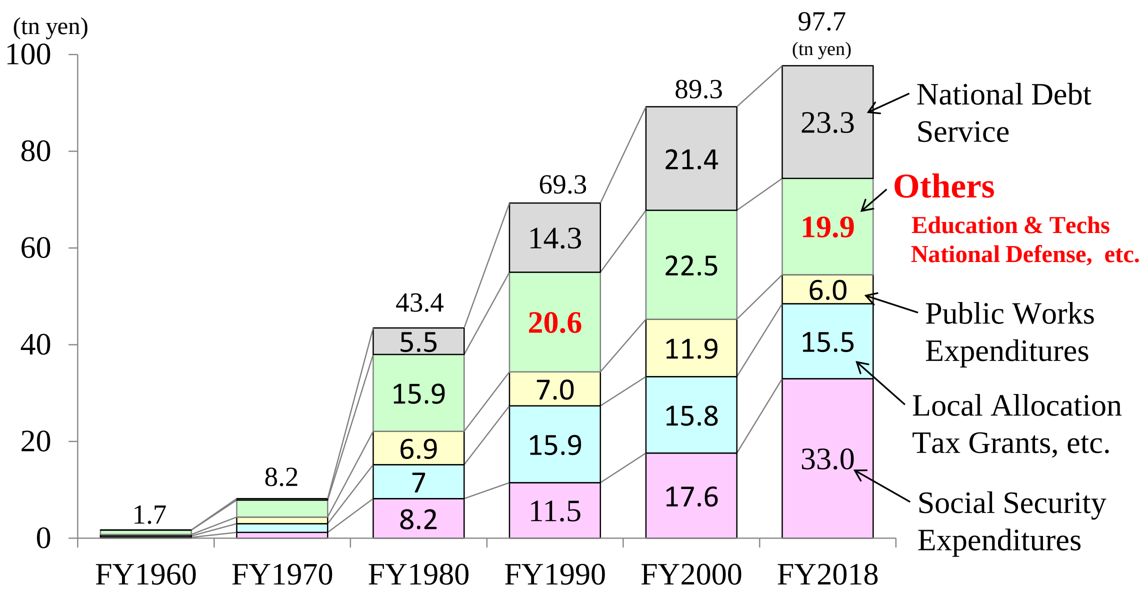

Figure 12 Changes in major expenditures of the General Account from 1960 to 2018

Note: Up to FY2000 are settled figures, FY2018 is based on a draft budget.
Source: Created by the author using Ministry of Finance, *Public Finance Statistics Book (FY2018 Draft Budget)*, December 2017, p. 7.

Although the total value of outstanding JGB has risen steadily, as seen in Figure 11, the cost of interest payments remains stable. This is because the interest rate has remained below 2% since 2003, which is a historically low level. This is largely due to quantitative and qualitative monetary easing by the Bank of Japan (BOJ).

Fiscal pressure from national debt service and social security expenditure can have negative effects on resource allocation in the national budget. For example, Figure 12 shows that expenditures for education, technology, national defense, agriculture and other items that comprise the Other segment of the General Account were allocated a total of 19.9 trillion yen in FY2018, a figure that is essentially unchanged from FY1990. This lack of flexibility prevents the Government from allocating funds for investing in future progress.

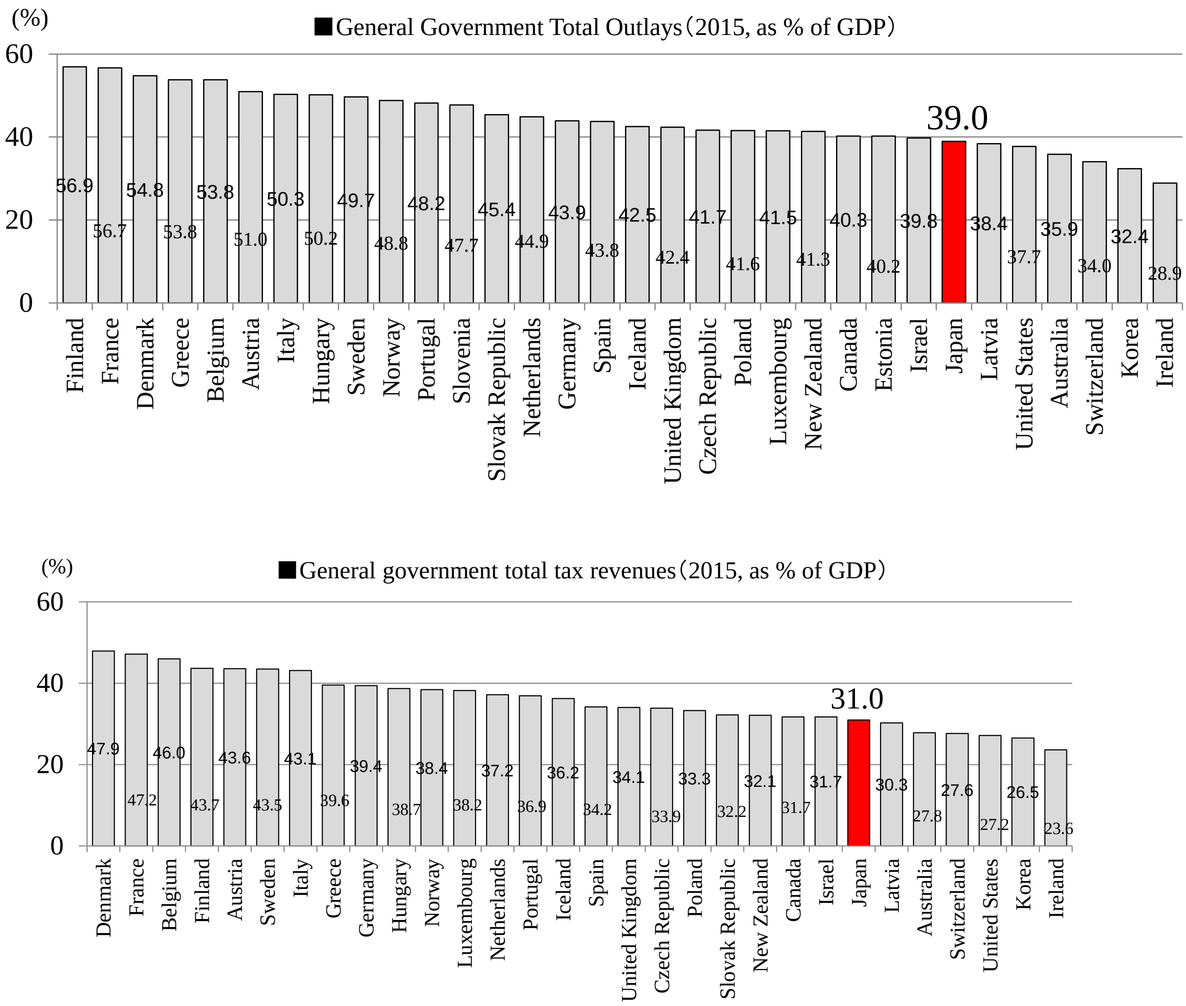

Figure 13 Outlays and tax revenues of major nations in 2015

Note: Tax revenues include social security contributions.
Source: Created by the author using *OECD Economic Outlook*, No. 102, November 2017, p. 287, etc.

III How has Japan avoided a public debt crisis?

How has Japan avoided a public debt crisis despite the magnitude of its public debt? Put another way, how has Japan avoided falling prices (rising interest rates) on JGB? Major factors include fiscal space, household financial assets, and the BOJ's monetary policy.

1 *Fiscal space*

The first factor to examine is fiscal space. As shown in Figure 13, the ratio of total general government outlays to nominal GDP was 39.0% in 2015. This was one of the lowest of allOECD member countries. Also, the ratio of tax revenues (including social security contributions) to nominal GDP was 31.0% in 2015, which is also one of the lowest. The Japanese economy can currently be characterized as "low welfare and low burden," implying that there is still enough fiscal space to accommodate increases in both outlays and burden. For example, Japan's consumption tax is a mere 8% compared to Value Added Tax rates of 15% or above throughout the EU.

2 *Household financial assets*

A second factor in Japan's having thus far avoided a debt crisis is the level of household financial assets, which are large enough to enable the Japanese government to finance most of its debt domestically. In fact, over 90% of all outstanding JGB are held by Japanese investors. Figure 14 shows that even as the gross public debt has increased to over 1200 trillion yen, household financial assets have climbed to over 1800 trillion yen. It should be

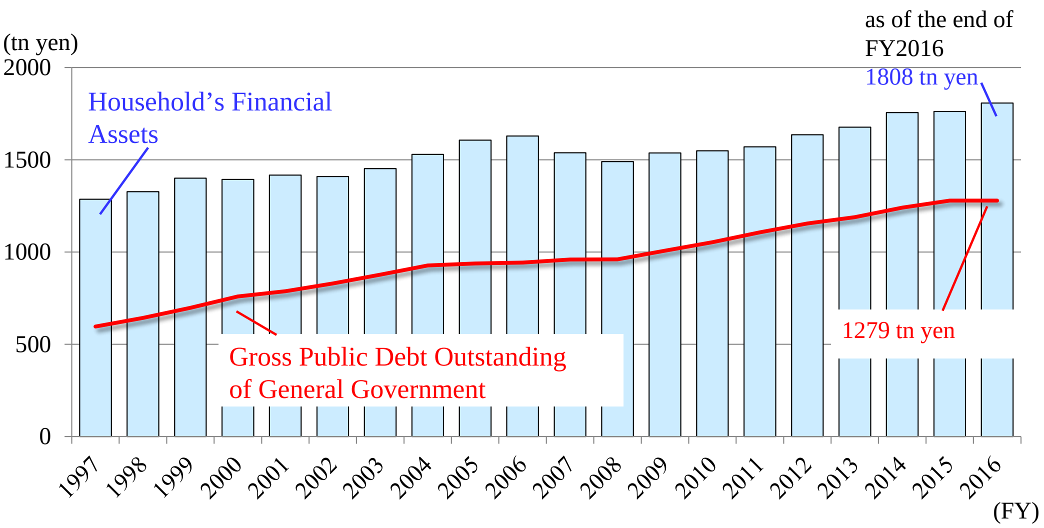

Figure 14 Changes in household financial assets and public debt from 1997 to 2016

Source: Created by the author using *Cabinet Office National Accounts*; Bank of Japan, *Flow of Funds Accounts*.

noted, however that the ratio of gross public debt to household financial assets is now over 70%, which is coming closer and closer to the "fiscal ceiling" of 100%.

In addition, as seen in Figure 15, a long-term decline in the rate of household savings as seen that figure fall to roughly 0%, which precludes any hope of a large expansion in household financial assets in the near future. Of course, the crisis could not happen soon after when the Government's debt exceeds the household's financial assets however, the trend in household's financial assets and declining household's savings rate suggest that the room for public debt increase is shrinking.

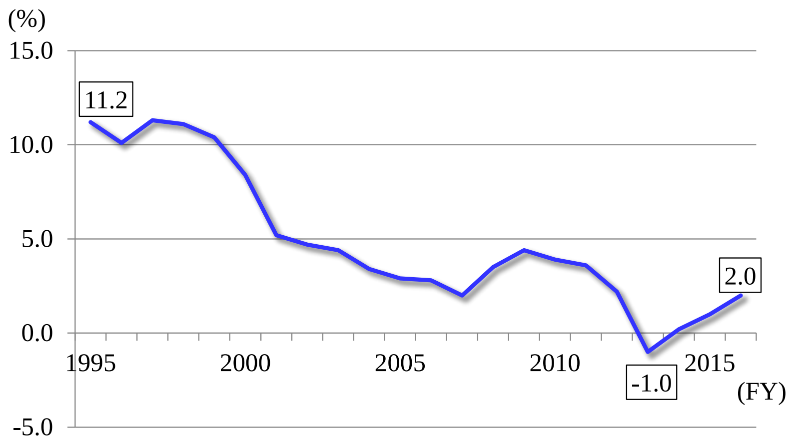

Figure 15 Savings as a percentage of household disposable income from 1995 to 2016

Source: Created by the author using *Cabinet Office National Accounts*.

3 *Ultra-accommodative monetary policy of Bank of Japan*

Many economists say that the ultra-accommodative monetary policy of the BOJ contributes largely to lower interest rates for JGB. As shown in Figure 16, the BOJ holds 449 trillion yen in JGB as of the 4Q of 2017. This is 41.1% of all outstanding JGB.[4]

IV Fiscal consolidation and comprehensive reform of social security and taxation

1 *The impact of fiscal deficits*

What impact do fiscal deficits have and what benefits are there to fiscal consolidation?

[4] As for BOJ's recent monetary policy, see AMEMIYA Takushi, "Comprehensive Assessment of the Monetary Easing and "Quantitative and Qualitative Monetary Easing with Yield Curve Control," *Issue Brief* (Chosa to Joho), No. 928, 15 November 2016. As for arguments on BOJ's fiscal soundness, see OMORI Kengo, "Fiscal Cost to Exit Monetary Easing of the Bank of Japan," *Issue Brief* (Chosa to Joho), No. 971, July 27, 2017 (in Japanese. An English translation will be published shortly).

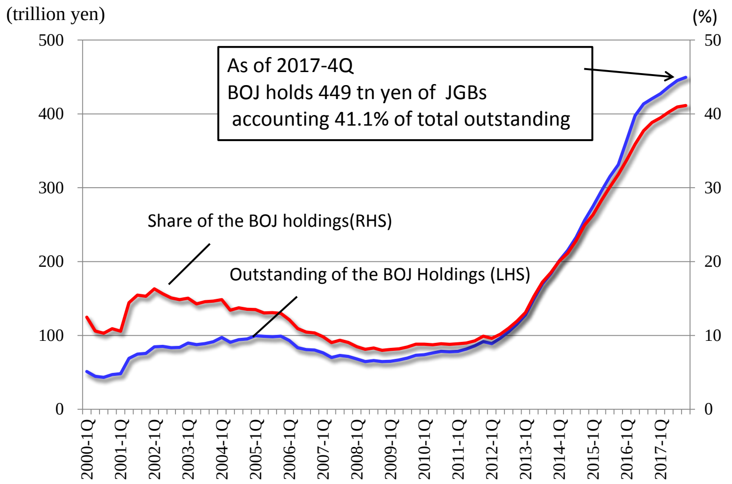

Figure 16 JGB held by Bank of Japan from 2000 to 2017

Source: Created by the author using Bank of Japan, Flow of Funds Accounts.

Potential impact of fiscal deficit and public debt include reduced flexibility in policy action, exacerbated intergenerational inequality, greater difficulty in securing public financing, higher interest rates as well as the concomitant loss of value for government bonds, and a loss of public confidence in government fiscal policy. This will naturally exacerbate anxiety about their future among the general public. In other words, a structural fiscal deficit and significant accumulation of public debt can have a serious negative impact on economic activity, fiscal stability, and private lives. Naturally, this includes the potential undesirable effects in the global economy.

2 *Targets for fiscal consolidation*

The Japanese government has set targets for fiscal consolidation in order to prevent such existing impacts and potential risks[5]. Fiscal consolidation has been targeted step by step. The first target, which was successfully achieved, is to halve primary deficit[6] of the central and local governments combined compared to the FY2010 by FY 2015 (Table 1). The second target is to achieve primary surplus of the central and local governments combined

[5] The current target for fiscal consolidation to seek primary surplus has its origin in Basic Policies for Economic and Fiscal Management and Structural Reform (June 26, 2001, Cabinet Decision) of the Koizumi Cabinet. The target on the public debt was added in Basic Policies for Economic and Fiscal Management and Structural Reform 2006 (Summary) (July 7, 2006, Cabinet Decision) also from the Koizumi Cabinet. The original targets were revised and the current targets are largely from an article entitled “The Plan to Advance Economic and Fiscal Revitalization” from in the Basic Policy on Economic and Fiscal Management and Reform 2015 (June 30, 2015, Cabinet Decision).

[6] Primary surplus means that the state will be able to pay for policy-related expenses without incurring new debt.

by FY2020[7]. And at the same time it aims to steadily reduce the public debt to nominal GDP ratio[8].

Table 1 Primary balance and arguments on economic growth rate

A government's primary balance is fiscal balance excluding interest payments. Primary surplus means the government can pay for policy-related expenses without incurring a new debt.

As shown in Annual Report on The Japanese Economy and Public Finance 2006, the relationship between public debt, nominal interest rates and nominal growth rate is expressed by the following formula.

$b_t = d_t + b_{t-1}[(1 + r)/(1 + g)]$

where,

b_t : current term debt outstanding (relative to nominal GDP)

b_{t-1}: preceding term debt outstanding (relative to nominal GDP)

d_t : current term primary deficit (relative to nominal GDP)

r : nominal interest rates

g : nominal GDP growth rates

(Cabinet Office, *Annual Report on The Japanese Economy and Public Finance 2006*, note 29, July 2006.)

The use of this formula has created a divide between fiscal-consolidation-oriented economists and economic-growth-oriented ones (see section V below), because it indicates that a primary surplus ($d_t < 0$) is required to converge debt outstanding in the long term when nominal interest rates exceed nominal GDP growth rates ($r > g$), whereas a primary surplus is not required to converge debt outstanding in the long term if nominal GDP growth rates exceed nominal interest rates ($r < g$) by a sufficient margin.

Source: Author

Figure 17 shows the latest estimate of primary balance (ratio to nominal GDP) of the central and local governments combined. It shows two cases. One is an Economic Growth Achieved case which projects more than 3% GDP growth in nominal terms. In this case, primary balance in FY2020 is estimated to be negative 1.8% of nominal GDP, equivalent to negative 10.8 trillion yen and the primary balance will be positive only in 2027. The other is a baseline case with a more prudent projection of a high 1% in GDP growth in nominal terms. In this case, Primary balance in FY2020 is estimated to be negative 1.9% of nominal GDP, equivalent to negative 11.0 trillion yen. It was difficult to meet the second target even in the Economic Growth Achieved case and even if the consumption tax had been increased as planned, the Government decided to reschedule the target when it

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7 The Government postponed its target date from FY2020 to FY2025 in Basic Policies for Economic and Fiscal Management and Structural Reform (June 15, 2018, Cabinet Decision).

8 Basic Policy on Economic and Fiscal Management and Reform 2017 (June 9, 2017, Cabinet Decision), p. 69. Regarding the reduction of the public debt to nominal GDP ratio, the Government formerly attempted "to achieve primary surplus of the central and local governments by FY2020; *thereafter*, the government will seek to steadily reduce the public debt to nominal GDP ratio," rather than "*at the same time*" (italics mine).

announced to expand the purpose for appropriation of consumption tax revenue (as stated later).

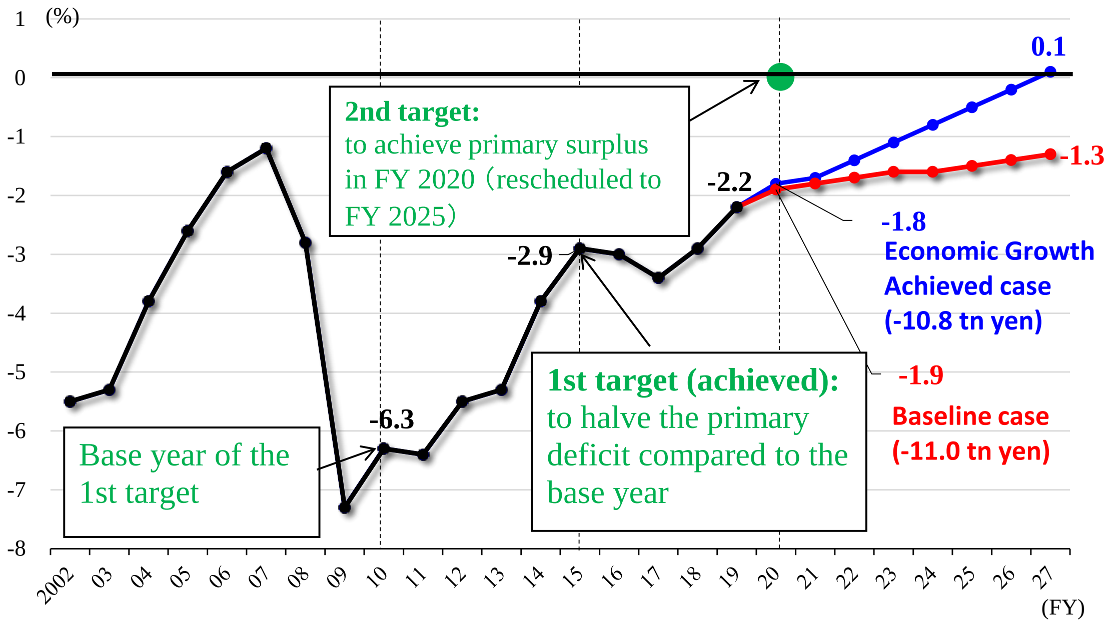

Figure 17 Combined primary balance of central and local governments from 2002 to 2027

Note: Should targets for economic growth be achieved, the GDP is projected to rise gradually, achieving 2% in real growth and and more than 3% in nominal growth by the early 2020s. Even if growth remains at the baseline level, the GDP is projected to grow over 1% in real terms and greater than 1% in nominal terms over the mid- and long term.

Source: Created by the author using Cabinet Office, *Economic and Fiscal Projections for Medium to Long Term Analysis*, 23 January, 2018, p. 7.

3 *Comprehensive Reform of Social Security and Taxation*

Although the 2nd Target shown in Figure 17 is unlikely to be achieved, the Government is carrying out reforms intended to achieve fiscal consolidation, known as the Comprehensive Reform of Social Security and Taxation. Table 2 shows a significant milestones achieved since 2004. The important facts are that the reform was initiated in 2004 by the ruling coalition of the Liberal Democratic Party (LDP) and the Komeito,[9] a subsequent Government headed by the Democratic Party of Japan submitted proposed legislation to the National Diet, and after significant deliberation, an agreement was reached in June 2012 between the three major parties of the Democratic Party of Japan, the LDP, and the Komeito, after which this bill was passed into law in August 2012. Thus, this reform was significant both for current and future Governments.

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[9] From 1998 to 2014 Komeito was officially called "New Komeito" in English. For the purposes of this report, however, "Komeito" is used throughout.

Table 2 Significant milestones in comprehensive reform of social security and taxation

Under a ruling coalition of the Liberal Democratic Party and the Komeito	
June 2004	2004 Reforms of the National Pension System (Law No. 104 of 2004) Supplementary Provision No.16 provides that the national government's share of basic pension benefit payments should be increased from one third to one half no later than FY2009, accompanied with comprehensive tax reform that ensures the stable revenue necessary to achieve this required.
March 2009	FY2009 Tax Reform (Law No. 13 of 2009) Supplementary Provision No. 104 provides that the Government must prepare legislation for comprehensive reform of social security and taxation no later than the end of FY2011 (March 2012).
Under the Democratic Party of Japan	
March 2012	Bills for Comprehensive Reform of Social Security and Taxation was submitted to the House of Representatives.
June 2012	Agreement on an amendment to these bills was reached between the ruling Democratic Party of Japan, the LDP, and the Komeito.
August 2012	The Acts with the amendment were passed in the National Diet and became Law No. 68 of 2012 and others.
Under a ruling coalition of the Liberal Democratic Party and Komeito	
April 2014	Consumption tax increases from 5% to 8%.
November 2014	First postponement of an additional increase in consumption tax. Prime Minister ABE Shinzo announces that the proposed October 2015 increase in consumption tax will be delayed until April 2017.
March 2016	FY2016 Tax Reform (Law No. 15 of 2016) Provides for lower taxes when the proposed increase in consumption tax rate is implemented in April 2017.
June 2016	Second postponement of an additional increase in consumption tax Prime Minister ABE Shinzo announces that the proposed April 2017 increase in consumption tax will be delayed until October 2019.
September 2017	Increased funding of social security Prime Minister ABE Shinzo announces that increased tax revenue from a planned increase in consumption tax will be appropriated to social security rather than fiscal consolidation.
June 2018	The Government postponed its target date for fiscal consolidation from FY2020 to FY2025.

Source: Author's summary

The Comprehensive Reform of Social Security and Taxation was intended to achieve two objectives simultaneously: First, to stabilize and enhance the social security system, and second, to achieve fiscal consolidation. Under the act, and in keeping with the Government's targets for fiscal consolidation, the consumption tax of a combined 5% for both national and local taxes would be raised a total of 5 percentage points in two stages. That is, to 8% starting April 2014, and to 10% starting October 2015.

The act include a provision allowing the Government to postpone planned increases if, in its judgment, the economic situation was not conducive to an increase at the time. The tax revenues from these increases was appropriated to fund social security. Of the total five percentage points, one percentage point was appropriated to fund increases in social security benefits, and the remaining four percentage points were appropriated to the stabilization of the social security system. In this case, “stabilization of the social security system” is a euphemism for counterbalancing increases in the deficit caused by increases in spending for social security.

As shown in Table 3, another result of this reform is that, in addition to appropriating revenue from consumption tax to fund payments for pensions, medical care, and nursing care, the Government can now also fund measures to counteract the declining birthrate.

Table 3: Appropriation of revenues from the consumptions tax (Social VAT)

	Pre-reform	*Post-reform*
Purpose	Basic Pension Medical Care Nursing Care	Pension Medical Care Nursing Care Responding to declining birthrate institutionally established
Provision	By budget	By law

Source: Author

4 *Postponement of increases in consumption tax*

The schedule set forth in the Comprehensive Reform Act called for the consumption tax to be increased from 5% to 8% in April 2014. After this increase, however, real growth of the GDP sank to a negative figure during the second and third quarters of 2014 QOQ. It was ostensibly due to decreased personal consumption, which accounts for 60% of the nominal GDP. Given, at the time, the significance in Government policy of overcoming deflation and stagnation, this was a sobering consequence.

Thus, Prime Minister ABE Shinzo decided to implement the provision of the law that permitted the Government to postpone the increase and announced that the planned increase from 8% to 10% that was slated for October 2015 would be postponed for one and a half years until April 2017. He also decided to delete the provision to abandon a political option for further postponement.

Later, in June 2016, Prime Minister ABE announced a further postponement of two and half years until October 2019. This required new legislation to achieve, since the original provision had been deleted. Although the writing on the wall was clear at the time, this second postponement came as a shock to many economists who were anxious about the sustainability of public debt. They viewed economy as being in moderate recovery at that time, and this second postponement suggested to some that a further and perhaps even permanent postponement might be lurking in the future.[10] On the other hand, some economists welcomed it as an indication of the Government's commitment to economic growth.[11] (See also Conclusion).

Additionally, in September 2017, Prime Minister ABE announced changes in the appropriation of consumption tax revenue. Appropriations for social security payments are to be increased and those for reducing the fiscal deficit are to be decreased when the consumption tax is increased from 8% to 10%. Some newspapers reported that this was the result of a compromise worked out by the Ministry of Finance to avoid a third postponement of the consumption tax increase.[12] Also, the allocation of revenues from this two percentage increase will increase funding evenly for both social security payments and reduction of the financial deficit, despite the fact that the allocation of the combined five percentage point increase was originally planned to be appropriated at a ratio of 1 to 4. Finding it increasingly difficult to achieve his fiscal consolidation targets, Prime Minister ABE announced that these targets would be revised when published in the *Basic Policy on Economic and Fiscal Management and Reform* that is put out each June.[13]

Conclusion

This paper has described how, even as Japan's population ages rapidly, its economy faces the Year 2025 Problem amid secular stagnation; how Japan's public debt is the worst among G7 countries and, at over 220% of nominal GDP, is reducing flexibility in allocation of the national budget; and how Japan has avoided a public debt crisis primarily thanks to having enough fiscal space to accommodate an increased tax burden, sufficient household financial assets to absorb JGB domestically, and low interest rates on JGB thanks to the BOJ's ultra-accommodative monetary policy. Moreover, in spite of the fact that postponements of increases in the consumption tax have made it increasingly difficult to meet announced targets, the Government continues its efforts to achieve fiscal consolidation.

What should be done to achieve fiscal consolidation? Many economists[14] and

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10 For example, IHORI Toshihiro, "Shorai Sedai he no Sekinin Hatase," *The Nikkei* (Nihon Keizai Shimbun), June 24, 2016; "Keizai Gakkai, Seiken to no Mizo Fukaku," *The Nikkei* (Nihon Keizai Shimbun), August 18, 2016.

11 For example, TAKENAKA Heizo, "Zeishu Kakuho, Mazu ha Seicho Wo (Conversation with YOSHIKAWA Hiroshi)," *The Nikkei* (Nihon Keizai Shimbun), August 7, 2016.

12 For example, "Kantei Roraku shi Zozei Rasshu Jitsugen," *Sankei News*, December 21, 2017.

13 *op. cit.* (7).

14 *op. cit.* (10); YOSHIKAWA Hiroshi, "Zaisei Bocho Naze Fusegezu? Keisho, Seiji ni Hibikana-katta," *The Nikkei* (Nihon Keizai Shimbun), June 1, 2017; KOBAYASHI Keiichiro, "Zaisei Rongi, 20-nen de Furidashi ni," *The Nikkei* (Nihon Keizai Shimbun), June 20, 2016; DOI Takero, "Zaisei Mokuhyo ni Saimu Zandaka GDP-hi," *The Nikkei* (Nihon Keizai Shimbun), July 11, 2017; SATO

influential lobbyists[15] insist that the consumption tax should be increased without further delay. The private sector is more prudent about sustainability of public debt and also tends to estimate Japan's potential growth rate at a lower level than the Government predicts. Many economists[16] regard the planned increase in consumption tax to be insufficient, because Japan's fiscal situation is so serious. They insist that measures such as additional increases in the consumption tax, increased income tax revenue from a broader tax base, and cuts in social security spending are necessary.

Yet there are some economists who are against increasing the consumption tax.[17] They are concerned that such increases could affect the economy adversely and insist that measures to overcome deflation and stagnation should come first. They also think that Japan's high nominal GDP growth will decrease its ratio of public debt to nominal GDP and tend to estimate Japan's potential growth rate at relatively high levels.

Overcoming deflation and stagnation has been one of the most significant policy issues of recent years. Fiscal consolidation also remains a crucial issue, and given that, historically, a public debt crisis usually causes high inflation and affects the general public much more severely than deflation, every effort must be made to avoid this eventuality. The Government is responsible for producing measures to achieve fiscal targets rescheduled in June 2018 and thereby assuage international concern over a fiscal situation that does not appear to be sustainable,[18] while walking a tightrope between deflation and public debt issues.

Before concluding this report, I would like to touch briefly on an issue that has not otherwise been mentioned, which is measures to countermeasure declining birthrates and an ageing population. Increasing the participation of woman in the workforce by resolving issues such as lack of readily available child care and long working hours should be given a priority, because in the long term they could also contribute to an increased birthrate. Also, a shifting of social security's focus away from benefits for the aged and toward necessary assistance irrespective of age, including measures to reduce income disparity between upper- or middle-class wage earners and the working poor.[19] Finally, measures to improve economic productivity should play a critical role in offsetting continued labor

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Motohiro, "Shohizei Saizozei no Enki ha Tadashii ka?" *Keizai Seminar* (Economics Seminar), vol. 691, August/September 2016, pp. 46-48, etc.

15 Keidanren (Japan Business Federation), *Heisei 30-nendo Zeisei Kaisei ni Kansuru Teigen*, September 19, 2017, p. 1; Keizai-Doyukai (Japan Association of Corporate Executives), "Mirai he no Kibo wo Hiraku Zeisei Kaikaku," October 3, 2016, p. 6; Nihon Shoko Kaigisho (Japan Chamber of Commerce and Industry), "Abe Sori no Shohizei Hikiage Jiki no Saienki Hyomei ni Taisuru Mimura Kaito Komento," 1 June 2016.

16 *op. cit.* (14).

17 *The Nikkei* (Nihon Keizai Shimbun), *op. cit.* (11); WAKATABE Masumi, "Kinshuku deha Zaisei Saiken ga Dekinai," *Voice*, vol. 461, May 2016, pp. 112-121, etc.

18 *OECD Economic Surveys: Japan 2017*, OECD Publishing, Paris, 2017, p. 126.

19 See KOIKE Takuji, "Discussion on Social Security System for All Generations: Focusing on Support Services for Children and Child-rearing," *Issue Brief* (Chosa to Joho), No. 992, 18 January, 2018.

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