Comments on Macroeconomic Projections of the Cabinet Office

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1. Basic features of the Projections

1) High Growth rates
2) Long-term interests lower than nominal GDP growth rates till 2010.
3) Sharp cut of the expenditure of the central government
4) Shy on tax increase
5) Silent on budgets of local governments
### Ministry of Health. Welfare and Labor

<table>
<thead>
<tr>
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<th>2006</th>
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<th>2008</th>
<th>2009-10</th>
<th>2011-2012</th>
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<td>Nominal GDP growth rate</td>
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<td>2.8</td>
<td>1.9</td>
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<td>Long-term interest rate</td>
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<td>1.9</td>
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### The Cabinet Office

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<td>Nominal GDP Growth rate</td>
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2. Aging factor

- Aging factor will affect macro economic performance in a couple of very important ways:

  Savings (declining savings and the effects on long-term interest rate)

  Social security burden (increasing faster than nominal GDP, and the optimistic, i.e., 2~3%, projections by the MHWL)
Can social-security burden be controlled?

Question:
What are the projections or assumptions of the Cabinet Office on the social-security burden?
And what feasible and effective measures are considered?
Public pension: scheduled increase of contribution rate and the cut of benefits by macro-economic slides.
Health?
Long-term care?
Social welfare?
3. Is expenditure cut possible?

• Cabinet office’s assumptions:
  3% annual decline of public investment
  slower growth rate, 0.5%, of wages/salaries of public employees than their counterparts in the private sector.

→

Are these assumptions relevant?
4. Shy on tax increase and mechanism of for it

• At least more could be said about increasing the elasticity of tax revenue to GDP

• In other words, why Japanese tax system has lost buoyancy against GDP?
5. Silent on local government financing

Figure 1.3: Comparing expenditures of the central and local governments (1985=100)

Note: The expenditure of the central government is its total expenditure less transfers to local governments. Local governments’ expenditure includes the transfer received from the central government. The data since 1999 are based on J3ESNA, and those before 1989 are based on J8SNA. Two series are connected in 1990.
Determination of general-purpose grants and standard needs

**Step 1: General Purpose Grants**

\[ \text{General Purpose Grants} = \text{Total Expenditure} - \text{Total Revenue} \]

**Step 2: Standard Basic Needs**

\[ \text{Standard Basic Needs} = \text{General Purpose Grants} + \text{Standard Basic Revenue} \]

\[ \text{Standard Rev} = 75\% \text{ of total Revenue} \]