

## **The Second Proposal for Recovery from the Great East Japan Earthquake**

- Prompt establishment of recovery plans and basic policies for securing funds for recovery -

Based on the principle that reconstruction areas hit by the Great East Japan Earthquake and tsunami requires nationwide support, the Kansai business community publicized and submitted its first proposal for early recovery and reconstruction of the disaster-afflicted areas as well as for Japan's economic recovery to the national government on April 26. Since then, the Kansai business community has been working on a variety of support projects in coordination with the Tohoku business community.

On May 2, the Diet enacted the first supplementary budget for post-disaster restoration work. However, the national government faces a mountain of issues that must be urgently dealt with, such as livelihood support for disaster survivors, rubble removal, employment support, support for immediate resumption of business operations, as well as countermeasures against damage caused by the nuclear disaster and by unsubstantiated rumors about radioactive contamination. Therefore, the government must promptly compile the second supplementary budget and implement additional spending accordingly, on an as-needed basis.

The national government must also develop specific mid- and long-term measures for full-scale recovery in areas such as community development and industrial promotion. At the same time, the government must strongly support disaster-afflicted local governments so that they can promptly establish their recovery plans in order to keep disaster survivors motivated and willing to return to normal.

To deal with urgent issues and implement mid- and long-term measures for recovery, securing adequate funds is an unavoidable issue. The Reconstruction Design Council in Response to the Great East Japan Earthquake, organized by the national government, has discussed this issue and will soon present a basic direction for securing funds for recovery. The Kansai business community therefore proposes the following regarding development of specific measures for securing funds for recovery.

### 1. Basic policies for securing funds for recovery

#### (1) Prompt establishment of recovery plans

Considering the scale of damage by the recent disaster, full-scale recovery is expected to require far greater government spending than was required after the Great Hanshin-Awaji Earthquake. However, the first priority is not to secure funds for recovery. It is to promptly establish long-term recovery plans that will lead to creative recovery, or value-added recovery, and clarify the purposes for securing funds and

how they will be used. The national government must develop recovery policies and a variety of support measures in a timely manner and firmly support the afflicted local governments when they establish their recovery plans.

(2) Securing funds for recovery without compromising mid- and long-term policies for regaining financial health

Although the national government needs to secure substantial financial resources for post-disaster recovery, it must not simply depend on issuance of additional national bonds because of the nation's critical financial condition. If and when the government issues additional national bonds, it must gain public understanding, secure a source of revenue to redeem the bonds and still pursue mid- and long-term policies for regaining financial health.

## 2. Measures to secure funds for recovery

(1) Thorough review of overall government spending

When securing funds for recovery, the government must thoroughly review its overall spending, including that used for measures included in the manifesto of the ruling Democratic Party of Japan, such as the Child Allowance program, and make utmost efforts to slash spending to secure funds for recovery.

(2) Use of technologies, management expertise, and funds from the private sector

When implementing recovery projects, the national government must make the most of technologies and management expertise from the private sector. The national government must also use private funds extensively to reduce spending by itself and local governments.

To that end, for recovery projects that are expected to generate positive cash flow in the future, but are subject to risks that cannot be borne solely by the private sector, there need to be some measures to attract technologies, management expertise and funds from the private sector. For example, the government must consider the possibility of attracting funds from the private sector, such as institutional investors at home and abroad, by establishing a government-sponsored "post-disaster recovery fund" (tentative name) and issuing "post-disaster recovery fund bonds" (tentative name) with a government guarantee and an interest income tax break. The government then must use the "post-disaster recovery fund" to strengthen competitiveness of the agricultural and fishing industries through expansion of scale and ensure that infrastructure be reconstructed, operated and managed under a concession scheme stipulated in the revised PFI (Private Finance Initiative) Law.

### (3) Issuance of "recovery bonds" and introduction of "recovery tax"

If public spending is still needed to finance recovery efforts even after the national government makes utmost efforts to cut spending, it would be appropriate for the government to issue "recovery bonds" (tentative name). Unlike with other types of bonds, the funds received from the sale of "recovery bonds" must be used only for specified purposes. When issuing "recovery bonds," it would be also appropriate for the national government to introduce a "recovery tax," the burden of which would be borne widely and thinly by the public, in order to secure a source of repayment for the bonds. The "recovery tax" must be a temporary measure that will last until the redemption of the bonds. To gain trust in the "recovery bonds" and "recovery tax" from the public and the market, the national government must demonstrate its commitment to maintain fiscal discipline by establishing separate accounts for both revenues and expenditures related to post-disaster recovery. To determine when to introduce the "recovery tax," the government must consider and assess how much the Japanese economy, severely hit by the disaster, has recovered and picked up.

The basic principles of the "recovery tax" are that its burden be borne widely by the public and that its impact on the economy be minimized. Considering these principles, it would be most reasonable that the government will raise the consumption tax rate for a certain period on the condition that funds collected from the consumption tax must not be used to finance social security services. However, to support disaster-stricken taxpayers whose income level is below a predetermined threshold, the government needs to consider taking measures, such as refunding the consumption tax.

**Kansai Economic Federation**

**Kansai Association of Corporate Executives**