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Commentary on the Council on Economic and Fiscal Policy (May 22, 2026)

~ Accelerating Growth Investment to Achieve a “Strong Economy” and Resolute Implementation of Social Security Reform ~

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(Executive Summary)

- Private-sector members of the Council submitted proposals concerning “Growth Strategy Reinforcement Measures” aimed at improving productivity and raising the potential growth rate, as well as “Social Security Reform” to build a sustainable system amid a declining birthrate, an aging population, and labor shortages.
- Regarding the first point, with the goal of shifting toward an “investment-driven growth path” under the government’s leadership to break out of long-standing stagnation in domestic investment and respond to technological innovations such as AI, the proposals were put forward from three dimensions: (1) creating a “New Investment Framework,” (2) promoting investment through multi-year budgeting, and (3) establishing strategic management and comprehensive measures.
- Regarding the second point, social security reform to build a strong economy, proposals were presented from three angles to transition to a sustainable system while protecting the disposable income of the working-generation by viewing economic growth, taxation, and social security as an inseparable trinity: (1) integrated reform of “benefits and burdens” (reducing burdens on the working generation), (2) ensuring the sustainability and improving the productivity of medical and nursing care services, and (3) examining “aggressive preventive medicine” and measures to improve take-home pay (such as refundable tax credits).
- From the perspectives of macroeconomics, fiscal discipline, and social security, the author made recommendations on the following four points: (1) concretizing the “New Investment Framework” and setting KPIs, (2) establishing principles for financing instruments outside the primary balance (PB), (3) reviewing expenditure guidelines and enhancing efficiency in an inflationary phase, and (4) resolving labor supply constraints and achieving sustainable social security reform.

1. Introduction

At the Council on Economic and Fiscal Policy held on May 22, 2026, innovative proposals were made to materialize the macroeconomic targets pledged by the Takaichi administration.

These proposals integrated "Growth Strategy Reinforcement Measures," which aim to improve productivity and raise the potential growth rate, and "Social Security Reform," which seeks to construct a sustainable system amidst a declining birthrate, an aging population, and severe labor shortages, treating them as an indivisible whole.

Accordingly, this paper introduces the details discussed at the Council based on the papers submitted by the private-sector members.

2. Proposals on Reinforcing Growth Capital to Achieve a "Strong Economy"

To break away from decades of stagnant domestic investment and to cope with population decline, geopolitical risks, and rapid technological innovations like AI, the necessity of shifting toward an "investment-driven growth path" under strong government leadership was demonstrated through three key dimensions:

First: Creating a "New Investment Framework" for Crisis Management and Growth Investments

To back the medium-to-long-term investment decisions of private enterprises, three recommendations were made to establish an effective framework that moves away from transitory, one-off government support:

An investment framework distinct from ordinary expenditures: A "New Investment Framework" should be set up separate from regular spending to secure the necessary investment amounts, without being constrained by past budgetary precedents.

Reviewing the guidelines for budget requests: The framework should not serve as a mere wishlist for preliminary budget requests; instead, it should be restructured into a mechanism that effectively translates into budget appropriations during the budget formulation process, enabling the budget requests necessary to execute growth strategies.

Targeted investment in startups and SMEs: In addition to the 17 strategic sectors, startup support—which yields substantial spillover effects—and measures to strengthen the earning power of mid-sized enterprises and small and medium-sized enterprises (SMEs) should be categorized as growth investments.

Second: Promoting Investment Through Multi-Year Budgeting and Flexible Fund Management

Two proposals were put forward to enhance investment:

Abolishing the rule requiring funds to be wrapped up "within 3 years in principle": For sectors such as semiconductors, energy, GX (Green Transformation), space, quantum

computing, bio-technology, fusion energy, and AI, where investment recovery and result manifestation require long horizons, the current fund rule should be abolished to enhance predictability.

Utilizing treasury debt behavior (treasury commitments) and extending its horizons: To adapt to a "world with positive interest rates" and execute flexible fund management based on expenditure timing and project progress, the government should consider extending the current maximum 5-year limit on treasury commitments to the extent necessary for executing the Public-Private Investment Roadmap.

Third: Strategic Management via Portfolios and Comprehensive Policy Strategies

Two recommendations were made regarding strategic management:

Evaluating strategic fields as a whole: Premised on the high uncertainty of technology and markets, progress management should not judge individual projects based on short-term success or failure. Instead, the entire strategic sector should be evaluated as a "portfolio" to confirm whether it strengthens value-creation capabilities and supply capacity as a whole.

Facilitating smooth shifts into growth sectors: By comprehensively combining regulatory and institutional reforms, human resource development, and labor market reforms—and assuming the rapid societal implementation of AI—the government should cultivate an environment where corporations, capital, and talent can smoothly migrate to growth sectors.

3. Social Security Reform to Build a "Strong Economy"

In social security reform, proposals were put forward from three dimensions to advance a transition toward a sustainable institutional design while securing the necessary medical and nursing care services and protecting the disposable income of the working generation by treating economic growth, taxation, and social security as a trinity:

First: Integrated Reform of "Benefits and Burdens" and Reducing the Burden on the Working Generation

Based on the Takaichi administration's policy to "stop the rise in social insurance premium rates for the working generation and gradually reduce them," the proposals demanded that a concrete reform schedule be clarified within fiscal year 2026, based on the following three points:

Promoting visibility: The mid-to-long-term outlook of how demographic structures, prices, wages, and advanced medical technologies affect benefit expenditures and the disposable income of the working generation must be updated and visualized on a regular basis.

True and fair ability-to-pay independent of age: The government should review out-of-pocket medical expenses at counters and user burdens for nursing care based on the actual conditions of the elderly. It should also consider revising the definition of "the elderly" to realize a society where people can continue working regardless of age.

Addressing low-risk medical care: To ensure institutional sustainability, necessary measures should be considered for low-risk, routine medical care and minor pharmaceuticals.

Second: Ensuring Sustainability and Enhancing Productivity in Medical and Nursing Care Delivery Systems

Three proposals were presented to secure required services even under limited human and financial resources by promoting efficient utilization and digital transformation (DX):

Strengthening the role of prefectures and enhancing efficiency: The efficient utilization of services should be advanced by strengthening the roles of prefectures in National Health Insurance and Nursing Care Insurance, optimizing hospital bed counts based on regional medical visions, consolidating medical institutions, enhancing primary care functions, and promoting refill/long-term prescriptions and telemedicine.

Mitigating burdens on the ground through AI and robotics: Labor-saving and service quality improvements should be driven simultaneously by maximizing the use of AI in diagnostics, voice input, care plan creation support, and physical AI for nursing care assistance.

Developing medical information infrastructure and expanding electronic health records/prescriptions: The development and implementation of new technologies should be accelerated through the secondary use of medical data and the development of clinical trial systems that meet international standards.

Third: Examining "Aggressive Preventive Medicine" and Measures to Improve Take-Home Pay

Two points were proposed:

Extending healthy life expectancy and turning citizens into societal supporters: The government should promote "aggressive preventive medicine" that integrates health promotion, disease prevention, early detection, consultation encouragement, and aggravation prevention, aiming for a vibrant society where everyone can actively participate while curbing medical and nursing care demands.

Examining refundable tax credits: From the perspective of viewing taxes and social security as a single entity, the government should deepen its consideration of refundable tax credits as an option that contributes to promoting employment and improving/supporting the take-home pay of the working generation.

4. Author' s Proposals

In light of the above, at this Council meeting, the author put forward recommendations from the viewpoints of macroeconomics, fiscal discipline, and social security to achieve both a "strong economy" and "fiscal sustainability" pursued by the Takaichi administration.

Concretizing the "New Investment Framework" and Setting KPIs

As an absolute prerequisite for private companies to full-scaledly expand domestic investment, R&D, and human capital investment, the author emphasized "improving medium-to-long-term predictability" and proposed four concrete steps:

Displaying a sufficient scale across multiple fiscal years: The newly created "New Investment Framework" must clearly present a sufficient scale that aligns with the government's "Public-Private Investment Roadmap" over multiple years rather than a single year.

Clarifying targets for strategic fields: Across the 17 strategic sectors, clear targets must be established regarding which markets to capture, which technologies to implement socially, and what level of supply capacity to secure domestically.

Setting up ex-ante KPIs: To measure investment outcomes, the author proposed setting up Key Performance Indicators (KPIs) in advance for private investment inducement amounts, GDP impact, and tax revenue effects.

Integrating institutional and regulatory reforms: By enacting regulatory and institutional reforms in tandem with budgetary measures, a sound market environment will be established where private firms can take risks and make investment decisions.

Establishing Principles for Financing Instruments Outside the Primary Balance (PB)

From the perspective of fiscal management, the author warned against the abuse of financing channels that fall outside the Primary Balance (such as Fiscal Investment and Loan Program [FILP] bonds) and insisted on establishing strict operational rules based on three points:

Preventing loopholes to bypass fiscal discipline: Instruments outside the PB must not be utilized as loopholes to evade fiscal discipline.

Rationality and conditions for utilizing FILP bonds: While using FILP bonds is highly rational for projects with certain prospects of future revenues, user fees, policy finance recoveries, or public-private co-investments, it must be conditioned on clarifying four elements in advance: ① rigorous selection of target projects, ② redemption viability, ③ public-private risk sharing, and ④ macroeconomic fiscal impacts.

Principles for choosing financing methods: A principle must be established to select the most appropriate financing instrument based on the nature of the investment and its return structure.

Reviewing Expenditure Guidelines and Enhancing Efficiency in an Inflationary Phase

Regarding expenditure management in a new economic phase where prices and wages are rising, the author pointed out the importance of a well-modulated, selective operation from three angles:

Defending vital administrative functions and growth investments: Great care must be taken to ensure that necessary administrative functions and future growth investments are not eroded or substantially cut due to inflation.

Discriminating and rigorously managing expenditures: The government should clearly distinguish between expenditures to be expanded and those to be trimmed, based on revenue revisions, policy efficacy, and consistency with fiscal targets. Specifically, it must rigidly embed PDCA, EBPM (Evidence-Based Policy Making), clear KPIs, and sunset clauses/exit strategies for each policy, resolutely restructuring low-efficacy programs.

Consistency with fiscal targets: Through these efforts, the government should transition to a truly effective expenditure management framework consistent with the goal of stably reducing the debt-to-GDP ratio.

Resolving Labor Supply Constraints and Sustainable Social Security Reform

In discussions on the social security sector, the author bypassed micro-level arguments about curbing benefit costs and instead made three recommendations from a macroeconomic perspective aimed at breaking the "severe labor supply constraint," which is the biggest bottleneck facing the Japanese economy:

Releasing human resources through medical and nursing care efficiency: Resolutely executing efficiency and labor-saving measures—such as medical/nursing care DX, maximizing AI and robotics, optimizing bed counts, and consolidating medical institutions—will serve as a

catalyst to release precious human resources that have been excessively locked up in the social security sector, smoothly shifting them toward growth industries that drive the economy.

Utilizing tax revenue growth from economic growth (Addressing Bracket Creep): Given that household purchasing power remains constrained, the author cautioned against sticking strictly to redistribution within households (raising burdens). While sustainable systems require permanent revenue sources, estimates suggest that the "bracket creep" (spontaneous increases in income taxes due to nominal wage hikes under inflation) amounts to nearly 2 trillion yen in practical tax increases annually. The author proposed reviewing future adjustment methods, such as considering the allocation of this increased tax revenue as a source for funding the social security system.

Preventive medicine driven by technology and proper incentives: The author pointed out that the current health insurance system biases heavily toward "supporting those who have already fallen ill," leaving little reward for individuals who routinely make efforts to maintain their health through gym attendance or walking. Citing Singapore's national project, the "National Steps Challenge"—which distributes free activity trackers to citizens and allows them to exchange steps-earned points for cash-equivalent vouchers—the author called for creating a mechanism that visualizes citizens' health behaviors and powerfully backs preventive medicine through technology and appropriate incentive designs.

(Reference) 7th Council Meeting Materials:

<https://www5.cao.go.jp/keizai-shimon/kaigi/minutes/2026/index.html#tab0522>