

# The Great East Japan Earthquake and Fiscal Measures

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## Introduction

The Great East Japan Earthquake that struck on March 11, 2011 caused damage of unprecedented proportions. In addition to the tremors and ensuing tsunami, the earthquake led to nuclear accidents at the Fukushima Daiichi Nuclear Power Plant. The overall picture of the effects remains partially immeasurable. However, specific measures must be taken one at a time at each stage based on some type of policy in order to seek regrowth from rehabilitation and reconstruction, as long as the everyday lives of people continue uninterrupted. Fiscal measures the central government has taken since the period immediately after the earthquake are not necessarily advancing smoothly, but they have certainly moved forward steadily with the passage of a certain period of time. In this article, I aim to trace from the perspective of budgetary measures how and to what extent the state government (central government) has taken fiscal measures during the period from the aftermath of the Great East Japan Earthquake to the present.

## Levels of Damage Caused by the Earthquake

First of all, how great was the damage caused by the Great East Japan Earthquake? Tables 1 and 2 present an overall picture. Table 1 gives an overview of the earthquake. It was one of the largest quakes on record to hit Japan and the fourth largest in the world since 1900. The table indicates that the earthquake caused massive damage consisting of (1) casualties and (2) structural damage in the period through November 8, 2013 alone<sup>1</sup>. Table 2 presents losses caused

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<sup>1</sup> However, the state government appears to have substituted data, such as supplementary interview results and findings through surveys in neighboring areas, for statistics for three to four months immediately after the Great Earthquake because difficulties including the inability to collect questionnaires in stricken areas arose in the course of research. Refer to column 1-1 in the “Annual Report on the Japanese Economy and Public Finance (2011 Edition)” published by the Cabinet Office in July 2011.

by the earthquake, along with support. It lists damage estimated at a point one year and several months after the earthquake (around June 2012) and various support measures taken up to that point.

Table 1: Overview of the Great East Japan Earthquake

Item	Data		Damage situation, etc. (source as of January 10, 2014: National Police Agency, Reconstruction Agency, etc.)
Date and time	14:46, March 11, 2011		
Epicenter and level (estimation)	Sanriku coast (latitude of 38.1 degrees north, longitude 142.9 degrees east, 130 km east-southeast from the Oga Peninsula), 24 km deep. Moment magnitude scale: Mw 9.0		1) Casualties
Focal zone	Length: approx. 450 km, Width: 200 km		A. Deaths 15,884
Fault slip	Approx. 20-30 m at maximum		B. Missing 2,640
Travel distance of sea bed just above epicenter	Moved approx. 24 km east-southeast and lifted up approx. 3 m		C. Injured 6,150
	Seismic intensity 7	Northern part of Miyagi Prefecture	D. Dead related to the earthquake*2 2,916
	Seismic intensity 6 upper	Southern and central parts of Miyagi Prefecture, Nakadori and Hamadori in Fukushima Prefecture, northern and southern parts of Ibaraki Prefecture, northern and southern parts of Tochigi Prefecture	2) Structural damage
	Seismic intensity 6 lower	Southern coast, northern and southern inlands of Iwate Prefecture, Aizu in Fukushima Prefecture, southern part of Gunma Prefecture, southern part of Saitama Prefecture and northwestern part of Chiba Prefecture	A. Completely destroyed buildings 126,631
	Seismic intensity 5 upper	Sanpachi Kamikita and Shimokita in Aomori Prefecture, northern coast of Iwate Prefecture, southern coast and southern inland of Akita Prefecture, Murayama and Okitama in Yamagata Prefecture, northern part of Gunma Prefecture, northern part of Saitama Prefecture, northeastern and southern parts of Chiba Prefecture, Tokyo's 23 wards, Niijima, eastern and western parts of Kanagawa Prefecture, central and western parts of Yamanashi Prefecture, eastern part and the five lakes of Mount Fuji in Yamanashi Prefecture	B. Half-destroyed buildings 272,653
			C. Partially destroyed buildings 743,492

\*Including unconfirmed information  
 \*Including the damage caused by the earthquake on April 7, 2011. The seismic center of this earthquake was the coast of Miyagi Prefecture.  
 \*2: "Deaths related to the earthquake" is defined as "those who died from worsening of injury due to the Great East Japan Earthquake and are qualified to receive payment of solatia for disaster based on the Act for the Payment of Solatia for Disaster (those who did not receive the payment are also included.)"  
 Source: Reconstruction Agency (as of September 30, 2013)\*

Source: Materials provided by Japan Meteorological Agency and Japan Coast Guard  
 Source: Reconstruction Initiatives and Various Related Systems, published by Reconstruction Agency on January 17, 2014

Table 2: Losses Caused by the Great East Japan Earthquake, and Support

## 1) Stock Damage Caused by the Earthquake (Estimates by Various Organizations)

	Outline of estimate	Amount of stock damage	Remarks
Director General for Economic Research in the Cabinet Office (2011)	Refer to "The method to estimate the amount of stock damage caused by the Great East Japan Earthquake"	16-25 trillion yen	The estimate does not include the stock damaged from the nuclear accidents, impacts and damages due to radioactivity, costs for radioactivity decontamination, etc.
Director General for Disaster Management in the Cabinet Office (2011)	Information provided by prefectural and related government agencies	Approx. 16.9 trillion yen	The target prefectures are: Aomori, Iwate, Miyagi, Fukushima, Ibaraki, Chiba, Tochigi, Nagano and Niigata.
Inada, etc. (2011)	<p>Housing: The amount of damage was estimated by obtaining the number of damaged residential buildings from the housing damage situation prepared by National Police Agency, and multiplying this figure by unit price of housing.</p> <p>Automobiles: The amount of damage was estimated by multiplying the number of registered vehicles by the destruction rate of 3.2%.</p> <p>Ships and vessels: The amount of damage was estimated by multiplying the number of ships and vessels by the destruction rate of 90% for Iwate, Miyagi and Fukushima Prefectures, 20% for Aomori Prefecture and 50% for Ibaraki Prefecture.</p> <p>Social infrastructure stock: The amount of stock was estimated by using "Development of Social Infrastructure Stock Data by Prefecture (1980-2004)" by Central Research Institute of Electric Power Industry.</p> <p>Capital stock in private sector: The amount of stock was estimated by using "Capital Stock in Private Sector" of the Cabinet Office Economic and Social Research Institute.</p> <p>Distribution stock: The amount of stock was estimated by using "Census of Commerce" and "Census of Manufacturers" by the Ministry of Economy, Trade and Industry.</p> <p>The destruction rates were estimated by dividing the number of residences damaged due to the earthquake by the total number of residences. The amount of damage was obtained by multiplying this rate by the social infrastructure stock, capital stock in the private sector and distribution stock.</p>	Approx. 17.8 trillion yen	
Development Bank of Japan Inc. (2011)	Capital stock in the private sector and social infrastructure stock for each municipality were estimated by using the municipal gross production 19 and the municipal populations. The amount of damage was obtained by multiplying this capital stock in the private sector and social capital stock by the destruction rate obtained from the damage information acquired through hearings, etc. of the branch offices. Moreover, the amount of damage on housing stock was estimated by multiplying the amount of housing stock by 100% for complete destruction, 50% for half-destruction and 20% for partial destruction.	Approx. 16 trillion yen	
Kouno, Shiraishi	This was estimated by dividing the net fixed assets in "Definite Report on System of National Accounts" (stock) in proportion according to the data from the "Prefectural Economy and Public Model" and by multiplying this result by the destruction rate from the Great Hanshin-Awaji Earthquake.	Approx. 16-22.3 trillion yen	

Remarks: Prepared based on the published sources

Source: Table 2-3-1 in "Annual Report on the Japanese Economy and Public Finance (2012 Edition)" published by the Cabinet Office in August 2012

## 2 ) Amounts Invested in Stricken Areas

Item	To date	Expected total
Government support	Approx. 18 trillion yen (of which, expenses related to disaster relief, etc.: 0.8 trillion yen; expenses related to disposal of disaster waste: 1.1 trillion yen; expenses related to disaster-related financing: 1.4 trillion yen; tax revenues distributed to local governments: 2.8 trillion yen; expenses for national disaster damage prevention: 1.1 trillion yen; etc.)	—
Insurance	Approx. 18 trillion yen (Actual amount paid as of July 2011. Of which, life insurance: 90 billion yen; earthquake insurance: 1,050 billion yen; other non-life insurance: 70 billion yen; mutual aid: 600 billion yen) *Source: Materials provided by the Financial Services Agency In the latest figures in the breakdown, life insurance: 155.7 billion yen (as of May 31, 2012); earthquake insurance: 1,224.1 billion yen (as of April 2, 2012) are published by different associations.	Approx. 2.6 trillion yen (life insurance: 165 billion yen; earthquake insurance: 970 billion yen; other non-life insurance: 600 billion yen; mutual aid: 900 billion yen)
Public donation	312.4 billion yen (distribution base, as of April 27, 2012)	(Total amount of raised funds: 356.7 billion yen as of June 1, 2012)

- Remarks: 1. Prepared based on materials published by the Ministry of Finance, Financial Services Agency, and Tokyo Electric Power Company Management and Finance Investigation Committee (2011), and the Ministry of Health, Labour and Welfare.
2. "Government support" refers to the amount of budget allotted to items related to earthquake and includes items not limited to the stricken areas, such as the national disaster damage prevention.  
It also includes expenses for which the power company will be asked to compensate for in the future.
3. Public donation does not include the amount directly donated to the prefectures and municipalities.
4. This table does not include compensation for the nuclear power plant accidents because payment, etc. had not been decided at the time of its calculation.

Source: Table 2-3-1 in the "Annual Report on the Japanese Economy and Public Finance (2012 Edition)" published by the Cabinet Office in August 2012

In short, the Cabinet Office's section in charge of economic and public finance analysis estimated the scope of the damage at about 16-25 trillion yen in "Analysis of the Macroeconomic Impact of the Tohoku-Pacific Ocean Earthquake Presented to the Special Ministerial Meeting on the Countermeasures to the Earthquake Disaster" (published on March 23, 2011). Following this estimate, the Cabinet Office's section in charge of disaster management calculated the total damage at 16.9 trillion yen in "Estimated Amount of Damage Caused by the Great East Japan Earthquake" (published on June 24, 2011). Looking at their breakdown, structure, etc. (including houses, land for housing, stores, offices, manufacturing plants and machinery) amounted to 10.4 trillion yen. This accounted for more than half of the damage. Other damage included that caused to lifeline facilities (waterworks, gas, electric, communications and broadcast facilities) estimated at 1.5 trillion yen, to social infrastructure facilities (rivers, roads, harbors, sewage systems, airports, etc.) estimated at 2.2 trillion yen, to agriculture, forestry and fisheries facilities (farmland, agricultural facilities, forests and fields, fishery facilities, etc.) estimated at 1.9 trillion yen, and to other facilities (educational facilities, healthcare facilities, welfare facilities, waste disposal facilities, other public facilities, etc.) estimated at 1.1 trillion yen. More detailed breakdowns (such as for each type of lifeline facility and by prefecture and municipality) have not been published<sup>2</sup>.

As shown in Table 2, private organizations have come up with similar damage estimates in the subsequent period. However, this sum, 16.9 trillion yen, that the Cabinet Office's section

<sup>2</sup> Harada (March 2012) questioned this damage estimate by the Cabinet Office, including the lack of its published breakdown, suggesting that the estimate may be excessive.

in charge of disaster management presented on June 24, 2011, has generally been recognized as the total amount of the damage caused by the earthquake, and used as the basis for countermeasures the central government has subsequently taken<sup>3</sup>.

### Countermeasures Taken by the Central Government

The Great East Japan Earthquake struck when the Diet was in session under the Democratic Party of Japan (DPJ) administration led by Prime Minister Naoto Kan. In response to the earthquake, the central government set up the Emergency Disaster Response Headquarters and on the same day began taking countermeasures against earthquakes, tsunami and nuclear power plant accidents. Table 3 shows the flow of major steps and countermeasures taken by the government in the subsequent period.

After the earthquake, the central government set up the Reconstruction Design Council in Response to the Great East Japan Earthquake based on a Cabinet decision on April 11, 2011, though various blunders had been observed among related departments and parties. The Council was placed under the Reconstruction Headquarters in Response to the Great East Japan Earthquake after the Basic Act on Great East Japan Earthquake Reconstruction was promulgated and put in force on June 24, 2011. The Council submitted its proposals for recovery to the Headquarters on June 25, 2011.

Table 3: Major Steps and Countermeasures Taken After the Great East Japan Earthquake

<b>2011</b>	
March 11:	Great East Japan Earthquake strikes - Emergency Disaster Response Headquarters is established
March 17:	Special Headquarters for Measures to Assist the Lives of Disaster Victims (support team) is established
May 2:	Act on Special Fiscal Aid and Subsidy for Recovery from the Great East Japan Earthquake is enacted First supplementary budget receives Diet approval (with estimated reconstruction expenses of 4,015,300 million yen)
June 24:	Basic Act on Reconstruction in response to the Great East Japan Earthquake is put into force
June 25:	Reconstruction Design Council in response to the Great East Japan Earthquake submits its proposals for recovery
June 28:	Reconstruction Headquarters in response to the Great East Japan Earthquake holds its first meeting
July 25:	Second supplementary budget receives Diet approval (with estimated reconstruction expenses of 1,910,600 million yen)
July 29:	Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake are formulated

<sup>3</sup> However, as stated in Remarks 4 of Table 2, this damage estimate does not include compensation for the nuclear power plant accidents because payment, etc. had not been decided at the point of its calculation.

August 5:	Special Measures Act for Evacuees from Nuclear Power Plant Accidents is enacted
August 26:	First meeting for adjusting project plans and work schedules of central government ministries and agencies is held
August 27:	Council for Reconstructing Fukushima from the Nuclear Disaster holds its first meeting
November 21:	Third supplementary budget receives Diet approval (with estimated reconstruction expenses of 9,243,800 million yen)
November 30:	Special Measures Act for Reconstruction Funding After the Great East Japan Earthquake is enacted
December 7:	Act on Great East Japan Earthquake Special Recovery Areas is enacted
December 9:	Act on Establishment of Reconstruction Agency is enacted
<b>2012</b>	
February 9:	Iwate and Miyagi Prefecture approve their first reconstruction acceleration plans
February 10:	Reconstruction Agency begins its operations
March 2:	Issuable amount of reconstruction subsidies is reported (for first time)
March 5:	Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake begins its operations
March 30:	Act on Special Measures for the Reconstruction and Rehabilitation of Fukushima is enacted
April 5:	FY2012 budget receives Diet approval (with estimated reconstruction expenses of 3,775,400 million yen)
June 21:	Act Concerning the Promotion of Measures to Provide Living Support to the Victims, including the Children, who are Affected by the TEPCO Nuclear Accident in Order to Protect and Support their Lives is enacted
July 13:	Cabinet decides on Basic Policy for Recovery and Reconstruction of Fukushima
September 24:	Grand design for policies for helping citizens and local governments in stricken areas suffering from nuclear accidents is announced
November 22:	State of recovery from Great East Japan Earthquake is reported to Diet
<b>2013</b>	
January 29:	Scale of recovery and reconstruction projects and their revenue source are reviewed - Budget for projects is increased from 19 trillion yen to 25 trillion yen based on reviews
February 1:	Cabinet sets up Directorate General for the Reconstruction and Rehabilitation of Fukushima
February 6:	Reconstruction Promotion Committee reports on its discussions in FY2012
February 26:	Supplementary FY2012 budget receives Diet approval (with estimated reconstruction expenses of 317,700 million yen)
March 7:	Work Schedules for Housing Reconstruction are announced
March 15:	Package of measures for supporting nuclear disaster victims is announced
April 2:	Package of measures against effects of nuclear disaster, including damage caused by rumors, is announced
May 10:	Act on Special Measures for the Reconstruction and Rehabilitation of Fukushima is amended
May 15:	Original FY2013 budget receives Diet approval (with estimated reconstruction expenses of 4,384,000 million yen)
June 5:	Reconstruction Promotion Committee submitted a report Report title: Toward Creation of New Tohoku (The Interim Compilation of Discussions)
August 7:	Reviews of evacuation areas are completed
October 11:	Cabinet decides on basic policy for Act Concerning the Promotion of Measures to Provide Living Support to the Victims, including the Children, who are Affected by the TEPCO Nuclear Accident in Order to Protect and Support their Lives, and reports basic policy to Diet

November 12:	State of recovery from Great East Japan Earthquake is reported to Diet
December 12:	Cabinet decides on supplementary FY2013 draft budget (with estimated reconstruction expenses of 563,800 million yen)
December 20:	Cabinet decides on Policy for Accelerating Fukushima's Reconstruction from the Nuclear Disaster
December 24:	Cabinet decides on original FY2014 draft budget (with estimated reconstruction expenses of 3,646,400 million yen)
<b>2014</b>	
February 6:	FY2013 supplementary budget receives Diet approval

Source: Reconstruction Initiatives and Various Related Systems published by Reconstruction Agency on January 17, 2014

The central government formulated three supplementary budgets in the course of FY2011. It also urgently and successively prepared a number of laws, including the Basic Act on Reconstruction in response to the Great East Japan Earthquake (enforced on June 24), Special Measures Act for Evacuees from Nuclear Power Plant Accidents (enacted on August 5), Special Measures Act for the Reconstruction Funding After the Great East Japan Earthquake (enacted on November 30), Act on Great East Japan Earthquake Special Recovery Areas (enacted on December 7) and Act on Establishment of the Reconstruction Agency (enacted on December 9). However, approaches generally stayed at the level of restoring matters to their original condition. It was hard to say that specific initiatives for recovery had been launched at full scale.

The central government became ready to make concerted efforts to address post-disaster reconstruction with the launch of the Reconstruction Agency on February 10, 2012, and programs such as reconstruction subsidies began in March. The FY2012 budget somehow received Diet approval on April 5, 2012, succeeding a provisional budget that covered from April 1-6, 2012. The Special Account for Great East Japan Earthquake Reconstruction was also established in the central government budget in FY2012<sup>4</sup>. This Special Account is aimed at clarifying accounting in connection with reconstruction projects for bringing transparency to the flow of state funds related to reconstruction and for properly managing the redemption of reconstruction bonds. However, the Special Account alone does not equate to reconstruction projects or a revenue source for them because reconstruction expenses can be considered and managed in both the general account and Special Account, and transfers from the preceding fiscal year and to the following fiscal year are expected to occur in each fiscal year.

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<sup>4</sup> To begin with, special accounts had been consolidated step by step according to a plan to reduce their number from 31 in FY2006 to 17 in FY2011 based on the Act on Special Accounts enacted in March 2007. However, the Special Account for Great East Japan Earthquake Reconstruction was set up under the jurisdiction of all central government ministries and agencies in response to the earthquake. Consolidation of special accounts will be conducted from FY2014 to reduce them from 17 to 14 and to decrease all accounts from 51 to 34 based on the Act for Partial Revision of the Act on Special Accounts enacted on November 15, 2013.

In any event, support for Fukushima Prefecture, which had been lagging since the nuclear power plant accidents, and initiatives for reconstruction finally went into action around this time. The Act on Special Measures for the Reconstruction and Rehabilitation of Fukushima was enacted on March 30, 2012. The Cabinet decided on the Basic Policy for Recovery and Reconstruction of Fukushima on July 13. The central government on September 24 announced its grand design for policies for helping citizens and local governments in stricken areas suffering from the nuclear accidents.

Later, the political situation changed into fierce confrontation over the dissolution of the House of Representatives (lower house) of the National Diet in the fall of 2012. Then Prime Minister Yoshihiko Noda ultimately dissolved it on November 14. In the 46th election of the members of the lower house held on December 16, the Liberal Democratic Party (LDP) drew support from voters with its so-called Abenomics<sup>5</sup> policies advocated by LDP President Shinzo Abe. Against the backdrop of their changing popularity, a reversal of power between the ruling and opposition parties took place. Abe, who had once occupied the top position, was appointed the 96th Prime Minister on December 26.

The cabinet Abe formed immediately reviewed the scale of recovery and reconstruction projects and their revenue source. Based on the review, the cabinet raised the budget for the projects from 19 trillion yen to 25 trillion yen on January 29, 2013. Taking further steps, it set up the Directorate General for the Reconstruction and Rehabilitation of Fukushima on February 1, and secured Diet approval for the supplementary FY2012 budget on February 26. The original FY2013 budget received Diet approval on May 15, but the Reconstruction Promotion Committee submitted a report titled “Toward the Creation of New Tohoku (the Interim Compilation of Discussions)” on June 15 to review approaches under the previous Democratic Party of Japan (DPJ) administration and to start more controlled initiatives.

### **Fiscal Measures Taken by the Central Government**

The DPJ administration led by then Prime Minister Naoto Kan was in charge of the central government when the Great East Japan Earthquake struck Japan. The Kan administration urgently secured Diet approval for the budget for the next fiscal year based on an agreement between the ruling and opposition parties because the FY2011 draft budget was in the final state of Diet deliberation at that point. Then the administration reorganized the state budget and allocated reserves to deal with funding shortages created by the earthquake. After taking those steps, the central government took emergency steps through the first supplementary FY2011 budget. In the period that followed, the Kan administration worked out the second, third and

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<sup>5</sup> Abenomics is a coined word for the overall picture of economic policies advanced by the Abe administration. It has three pillars: (1) bold monetary relaxation policies, (2) flexible financial measures and (3) the growth strategy of stimulating private investment. Responding positively to the stance and direction of these policies, stock markets have shown a rising trend since the general election.

fourth supplementary budgets after certain periods of time. All these budgets were of course put together and implemented under the DPJ administration. I would like to examine these FY2011 supplementary budgets one by one in the following section.

• **Supplementary FY2011 Budgets (First, Second and Third)**

First, let's look at the FY2011 supplementary budgets (first, second and third) formulated in series in Table 4. The sum presented in this table differs somewhat from the aggregate amount the central government and Ministry of Finance announced at the outset. The first FY2011 supplementary budget (decided by the cabinet on April 22, 2011 and receiving Diet approval on May 2) was based on the policies of including expenses, which early restoration from the earthquake is expected to require by the end of the concerned fiscal year, and of securing revenue sources through annual expenditure reviews and other steps, instead of issuing additional government bonds, from the viewpoint of winning the confidence of government bond markets. Accordingly, the supplementary budget announced originally, the first supplementary budget, included cuts in established expenses (amounting to 3,710,200 million yen)<sup>6</sup>, but Table 4 shows the size of this budget as 4,015,300 million yen without counting the reduction and limiting expenses strictly to those required for restoration. As a result, this first supplementary budget counted nontax revenues of 305,100 million yen, including 250,000 million yen to be paid by the Japan Expressway Holding and Debt Repayment Agency, in annual revenues. To state further, 4,322,000 million yen was added to payments to the Japan Finance Corporation, etc. in accordance with the Fiscal Investment and Loan Program. In short, the first FY2011 supplementary budget was formulated with no clear revenue sources prepared.

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<sup>6</sup> The largest cuts in established expenses were a reduction of 2,489,700 million yen in transfers to the special pension account for the basic pension charged to the National Treasury, a fall of 810,000 million yen in reserves for economic crisis response and regional vitalization, and a decrease of 208,300 million yen in child allowances.

Table 4: Reconstruction Budgets: FY2011 Supplementary Budgets (First, Second and Third) (Unit: 100million yen)

FY2011 first supplementary budget (Established on May 2, 2011)		FY2011 secondary supplementary budget (Established on July 25, 2011)		FY2011 third supplementary budget (Established on November 21, 2011)	
1) Expenses related to disaster relief, etc.	4,829	1. Expenses related to Act on Compensation for Nuclear Damages, etc.	2,754	1) Expenses related to disaster relief, etc.	941
2) Expenses related to disposal of disaster waste	3,519	1) Expenses related to Act on Compensation for Nuclear Damages, etc.	2,474	2) Expenses related to disposal of disaster waste	3,860
3) Expenses related to disaster response public works	12,019	2) Expenses related to the Act on the Nuclear Damage Liability Facilitation Fund	280	3) Additional public works, etc.	14,734
4) Facility expenses, disaster recovery expenses, etc.	4,160	2. Expenses related to assistance to disaster victims	3,774	4) Expenses related to disaster-related financing	6,716
5) Expenses related to disaster-related financing	6,407	1) Expenses related to response to overlapping debt issues	774	5) Tax revenues distributed to local governments	16,635
6) Tax revenues distributed to local governments	1,200	2) Subsidies to assist reconstruction of the lives of disaster victims	3,000	6) Subsidies for earthquake reconstruction	15,612
7) Other related expenses	8,018	3. Operating cost of the Reconstruction Headquarters in response to the Great East Japan Earthquake	5	7) Expenses related to reconstruction from the nuclear disaster	3,558
		4. Reserves for the recovery and reconstruction from the Great East Japan Earthquake	8,000	8) Expenses for national disaster damage prevention	5,752
		5. Tax revenues distributed to local governments	4,573	9) Other related expenses	24,631
	*1 Total 40,153		Total 19,106		*2 Total 92,438

\*1: The total amount does not include the amount deducted (3,710.2 billion yen) from the existing expenses listed in the material published by the Ministry of Finance (first order correction expenditure).

\*2: The total amount does not include supplementation for an extraordinary funding source for pensions and expenses related to hepatitis B listed in the material published by the Ministry of Finance (third order correction expenditure).

\*3: The ceiling state guarantee of 500 billion yen for borrowings made by the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake in accordance with the Act on the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake and the organization's debts in connection with corporate bonds are established in the general provisions for the general account budget of the fourth supplementary budget for FY2011 (established on February 8, 2012).

Source: Prepared based on the Reconstruction Initiatives and Various Related Systems published by the Reconstruction Agency on January 17, 2014

Following this first supplementary budget, the cabinet decided on the second on July 5, 2011 and it received Diet approval on July 25. The second FY2011 supplementary budget was based on the policies of anticipating expenses for making immediate actions for restoration absolutely sure in view of the state of restoration, etc. in the aftermath of the earthquake, and of using the closing surplus for FY2010 as a revenue source for the actions, instead of issuing additional government bonds. This second budget was 1,998,800 million yen in its original announcement. It is posted as 1,910,600 million yen in Table 4<sup>7</sup>. Surplus carried forward from the previous fiscal year of 1,998,800 million yen (consisting of surplus prescribed in Article 6 of the Public Finance Act of 1,453,300 million yen and tax revenues distributed to local governments of 545,500 million yen) is counted as a revenue source. No constant revenue source had yet been prepared at this point. The maximum amount of 2,000,000 million yen in government bonds to be issued for contributing funds to the Nuclear Damage Liability Facilitation Fund based on the Act on the Nuclear Damage Liability Facilitation Fund was established in the general provisions

<sup>7</sup> The difference is attributable to tax revenues distributed to local governments. The revenues were 545,500 million yen in the original announcement for the second FY2011 supplementary budget. They are stated as 457,300 million yen in Table 4.

of this budget. The ceiling state guarantee of 2,000,000 million yen was established in the provisions at the same time<sup>8</sup>. In short, both the first and second FY2011 supplementary budgets could be described as stopgap budgets for emergency measures.

In contrast, conditions at a point more than six months after the earthquake called for the third FY2011 supplementary budget, which was full-fledged. The basic policy for this budget was to take measures that truly contribute to reconstruction in a prioritized manner based on the basic policy for reconstruction as a budget for full-scale reconstruction from the earthquake and associated nuclear disaster. For that purpose, the budget took into consideration responses to deindustrialization under the effects of the excessively strong yen in the past several years and other such factors based on the understanding that true reconstruction of stricken areas is impossible without regrowth of the Japanese economy. The third supplementary budget also included expenses related to hepatitis B and for responding to natural disasters, including typhoon number 12. The budget secured a revenue source for these expenses with steps including the issuance of reconstruction bonds with a predetermined course of redemption. An amount limited to expenses related to the earthquake, 9,243,800 million yen, is stated in Table 4 because other policy expenses had been incorporated in this third budget (which was decided by the cabinet on October 21, 2011 and received Diet approval on November 21) in advance<sup>9</sup>. A noteworthy point about this budget is that reconstruction bonds of 11,550,000 million yen were, at long last, included as a revenue source. The bonds covered most of the expenses accordingly. Since the period immediately after the earthquake, there has been an argument that it is reasonable to ask future generations to bear a burden to a certain extent, instead of asking the working generation at the point of the disaster alone, when the burdens are expenses needed for recovery and reconstruction from such an unprecedented catastrophe<sup>10</sup>. The issuance of reconstruction bonds had been viewed as an inevitable choice from that standpoint. However, there seemed to be central government officials who thought twice about securing the trust of government bond markets with issuance of additional government bonds.

Be that as it may, this third supplementary budget was formulated and announced as a mixture of peacetime supplementary budget items (such as expenses related to hepatitis B of 48,000 million yen and expenses for responding to natural disasters, including typhoon number 12, of 320,300 million yen) and measures in response to the earthquake. In other items, reserves for the recovery and reconstruction from the earthquake of 234,300 million yen were decreased as part of annual expenditure cuts. Stated further, 1,342,100 million yen was added to payments

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<sup>8</sup> However, these expenses are excluded from reconstruction budgets discussed in this article because the expectation is that Tokyo Electric Power Company, Inc. will be asked to compensate for them in the future.

<sup>9</sup> In the originally announced third FY2011 supplementary budget, 11,733,500 million yen is estimated as expenses related to the earthquake, including 2,489,700 million yen in supplementation for an extraordinary funding source for pensions.

<sup>10</sup> Refer to Iwata (May 2011) for an example. There is also an argument made by Noguchi (July 2011) that external assets can serve as a revenue source for reconstruction.

to the Japan Finance Corporation, etc. in accordance with the Fiscal Investment and Loan Program. In addition, the maximum amount of government bonds to be issued for contributing funds to the Nuclear Damage Liability Facilitation Fund based on the Act on the Nuclear Damage Liability Facilitation Fund was raised from 2,000,000 million yen to 5,000,000 million yen in the general provisions of the special account budget.

The fourth FY2011 supplementary budget, amounting to 2,534,500 million yen, was formulated in the subsequent period (decided by the cabinet on December 20, 2011 and receiving Diet approval on February 8, 2012) for ascertaining additional fiscal demands and responding properly to such demands that are high in need and urgency (for making revisions for the purpose of putting things in order), taking into consideration a sense of uncertainty about the future that was spreading in Japan and from the perspective of security and safety of Japanese citizens. This fourth budget is not stated in Table 4 because it does not include expenses related to the earthquake. However, the ceiling state guarantee of 500,000 million yen for borrowings made by the incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake in accordance with the Act on the incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake and the organization's debts in connection with corporate bonds is established in the general provisions for the general account budget of this budget.

As stated above, this series of FY2011 supplementary budgets put together revenue sources by initially allocating reserves and funding sources for pensions. Prospects for reconstruction bonds finally came with the third supplementary budget (which received Diet approval on November 21, 2011). The earthquake may be a catastrophe that occurs only once in 1,000 years, but as shown in Table 3, prospects for revenues from special reconstruction taxes<sup>11</sup>, whose introduction had been sought from the standpoint of asking the working generation to bear a certain share of the burden, came at long last on November 30, 2011 when the Special Measures Act for the Reconstruction Funding After the Great East Japan Earthquake was enacted. The Special Account for Great East Japan Earthquake Reconstruction was established in accordance with the act in FY2012. Accordingly, the effects of the account began to appear in FY2012 budgets.

#### • FY2012 Budgets (Original and Supplementary)

As explained at the end of the preceding paragraph, the special income tax for reconstruction (enforced on January 1, 2013) and special corporate tax for reconstruction (enforced on April 1, 2012) were introduced in accordance with the Special Measures Act for the Reconstruction Funding After the Great East Japan Earthquake (enacted on November 30, 2011 and promulgated on December 2 of the same year). The special income tax for reconstruction adds a tax at a rate

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<sup>11</sup> Specifically, special reconstruction taxes consist of the special income tax for reconstruction and special corporate tax for reconstruction.

of 2.1% to the income tax on amounts earned during the 25-year period from January 1, 2013 to December 31, 2037. In the meantime, the special corporate tax for reconstruction increases the amount of corporate tax by 10% for three fiscal years, between March 31, 2014 and March 31, 2017. In short, the former is assumed to cover expenses for projects for reconstruction from the earthquake for generations that stretch for a considerably long period, and the latter is positioned to serve as a revenue source for the projects in the period for intensive reconstruction from FY2011 to FY2015<sup>12</sup>.

The original FY2012 budget was formulated in consideration of these measures for securing revenue sources. However, a provisional budget for April 1-6, 2012 was formulated on March 29, 2012 to prevent a gap at the beginning of FY2012 because Diet approval of the original FY2012 budget by the end of FY2011 became difficult. As a result, the original FY2012 budget with general accounts amounting to 90,333,900 million yen received Diet approval on April 5, 2012. As shown in Table 5, the Special Account for Great East Japan Earthquake Reconstruction established in the FY2012 budget amounted to 3,775,400 million yen. Reconstruction expenses, excluding 125,300 million yen in transfers to the Special Account for the National Debt Consolidation Fund and 400,000 million yen in reserves for reconstruction from the earthquake, came to 3,250,000 million yen. Annual revenues for the Special Account for Great East Japan Earthquake Reconstruction consisted of special reconstruction taxes of 530,500 million yen (including the special corporate tax for reconstruction of 481,000 million yen and special income tax for reconstruction of 49,500 million yen), transfers from general accounts of 550,700 million yen (including child allowance reviews of 427,200 million yen), nontax revenues (such as contributions to public works expenditures) of 11,800 million yen, and reconstruction bonds of 2,682,300 million yen. The budget relied on reconstruction bonds as a revenue source at an extremely high rate.

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<sup>12</sup> However, the Abe cabinet in “Economic Measures for Realizing a Virtuous Circle” published on December 5, 2013 announced it would abolish the special corporate tax for reconstruction one year ahead of schedule (and shorten its execution period to two years). This step seems to address the opinion in industrial circles that the Japanese corporate tax rate was originally higher than such a rate in other countries.

Table 5: Reconstruction Budgets: FY2012 Budgets (Original and Supplementary) and FY2013 Budget (Original)

(Unit: 100million yen)

FY2012 original budget (Established on April 5, 2012)	FY2012 supplementary budget (Established on February 26, 2013)	FY2013 original budget (Established on May 15, 2013)
1) Assistance to disaster victims 920	1) Restoration of infrastructure, etc. and community reconstruction 1,970	1) Assistance to disaster victims 1,883
2) Recovery and reconstruction of community 11,854	2) Promotion of industry and job security 502	2) Recovery and reconstruction of community 16,670
3) Promotion of industry and job security 2,920	3) Reconstruction from nuclear disaster 706	3) Promotion of industry and job security 3,075
4) Reconstruction and restoration from nuclear disaster 4,655		4) Reconstruction and restoration from nuclear disaster 7,264
5) Reserves, etc. for promotion of reconstruction from the earthquake 83		5) Reserves, etc. for promotion of reconstruction from the earthquake 145
6) Special local allocation tax for recovery from the earthquake 5,490		6) Special local allocation tax for recovery from the earthquake 6,053
7) Reserves for reconstruction 4,000		7) Reserves for acceleration of the reconstruction and the restoration of Fukushima 6,000
8) Transfers to Special Account for the National Debt Consolidation Fund 1,253		8) Transfers to the Special Account for the National Debt Consolidation Fund 662
9) National disaster damage prevention project 4,827		9) National disaster damage prevention project 1,274
10) Other related expenses 1,751		10) Other related expenses 815
Total: 37,754	Total: 3,177	Total: 43,840

\*1: The ceiling state guarantee of 500 billion yen for borrowings made by the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake in accordance with the Act on the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake and the organization's debts in connection with corporate bonds is established in the general provisions for the general account budget of each of the original FY2012 budget and FY2013 Budget.

\*2: The simple total of the "totals" from FY2011 first supplementary budget to FY2013 budget is approx. 23.6 trillion yen. However, in relation with the revenue source (approx. 25 trillion yen) for the recovery and reconstruction projects in the period for intensive reconstruction from FY2011 to FY2015, the same total shall be approximately 19.8 trillion yen because the expenses, such as decontamination expenses, for which Tokyo Electric Power Company, Inc. will be asked to compensate, are excluded.

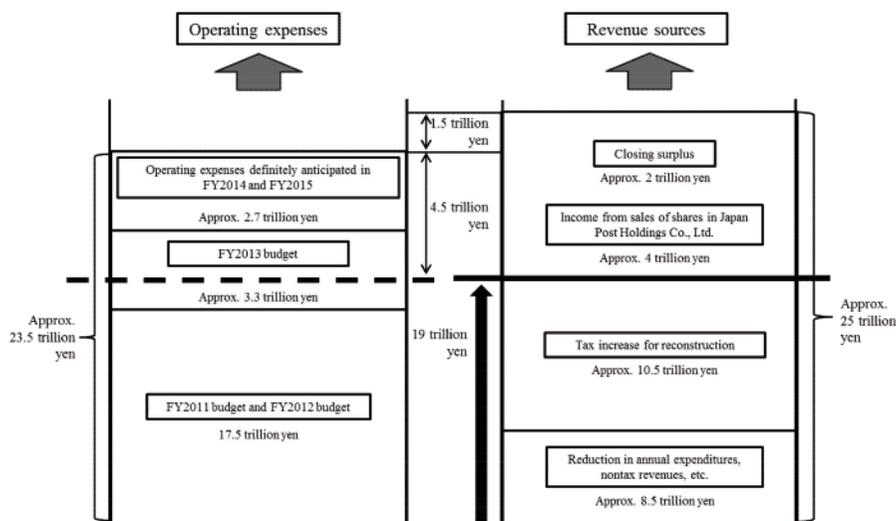
Source: Reconstruction Initiatives and Various Related Systems, published by Reconstruction Agency on January 17, 2014

In fact, the original FY2012 budget was the last fiscal budget formulated under the DPJ administration. The political situation became tense from the summer of 2012 to that fall. Consequently, then Prime Minister Yoshihiko Noda declared dissolution of the lower house on November 14, 2012 and the 46th election of the members of the house was held on December 16, 2012. The election resulted in a reversal of power between the ruling and opposition parties, and the coalition government, formed by the LDP and New Komeito and led by Prime Minister Shinzo Abe, was born on December 26. Formulation of the next budget and economic measures were brought to a standstill during this period because the political situation remained unstable. The realistic scope of budget execution was limited to execution of the budget that had received Diet approval at the beginning of the fiscal year in progress. The Abe administration took steps including personnel arrangements from the end of 2012 to the beginning of 2013. In January 2013 the administration began assembling economic policies and addressing projects for reconstruction from the earthquake at full scale.

The reviews of the financial framework for reconstruction (which were decided by the Reconstruction Design Council in Response to the Great East Japan Earthquake on January 29, 2013) were the first issue related to the earthquake, which the Abe cabinet worked on immediately after government changeover. As Figure 1 clearly shows, the total amount of

reconstruction expenses was increased from 19,000,000 million yen in the period under the previous DPJ administration to approximately 25,000,000 million yen through the framework reviews. The estimation of about 6,000,000 million yen as an additional revenue source made the budget increase possible. Looking at the breakdown, the increase consisted of approximately 4,000,000 million yen in income from sales of shares in Japan Post Holdings Co., Ltd. and approximately 2,000,000 million yen in closing surplus.

Figure 1: Review of Financial Framework for Reconstruction (decided by Reconstruction Design Council in Response to the Great East Japan Earthquake on January 29, 2013)



Note: Expenses that should be borne by business operators are not included in accordance with the Act on Compensation for Nuclear Damage and the Nuclear Damage Compensation Facilitation Corporation Act.  
Source: Present State of Reconstruction and Challenges published by the Reconstruction Agency on November 29, 2013

Whether these figures become possible depends entirely on improvement in economic management, which Abenomics is expected to achieve. In other words, a share price hike is a condition for income from the sales of shares, and improvements in corporate performance, employment conditions, wage standards and other factors are requirements for the closing surplus. A monetary relaxation policy of a different dimension, adopted by Haruhiko Kuroda, the new governor of the Bank of Japan (assuming the post on March 20, 2013), is the first arrow shot for achieving such results<sup>13</sup>. Effects of this policy began to already appear during the

<sup>13</sup> Specifically, the policy aims to achieve a commodity price increase rate of 2% in about two years. As guideposts for realizing the rate, the policy seeks to double the monetary base in two years, raise government bond purchases to 50,000,000 million yen a year, and expand the acquisition of risk assets. All these steps are based on the intent and will to turn around the prolonged deflationary recession of the economy, which Japan could not leave easily while Masaaki Shirakawa was the BOJ governor.

general election in November 2012 in the form of trends toward share price increase and yen depreciation. Financial policies led by Kuroda also appear to have started positively affecting the real economy in certain ways. The reviews of the financial framework for reconstruction (decided by the Reconstruction Design Council in Response to the Great East Japan Earthquake on January 29, 2013) were an initiative designed in a set together with such economic policies.

#### • **Supplementary FY2012 and Original FY2013 Budgets**

In regular budget formulation procedures, a fiscal budget drafted by the central government is decided by the cabinet at the end of the prior calendar year, deliberated on and approved at an ordinary session of the Diet at the end of the fiscal year (January-March of the following calendar year), and executed in April of that year as the budget for the new fiscal year. However, the formulation of the FY2013 budget was significantly delayed because the general election took place in the fall of 2012 and political confusion before this election prevented the finalization of basic policies on budget formulation. As a result, in an exceptional case, formulation of the original FY2013 budget began at full scale after the new year began in January 2013. At that point, the new Abe administration needed to fundamentally review the budget for reconstruction from the earthquake for emphasizing its originality and novelty. Such need resulted in reviews of the framework for reconstruction budgets shown in Figure 1 above. The need to formulate a supplementary FY2012 budget based on emergency economic measures also arose in view of such need. The assessment that inserting a supplementary FY2012 budget prior to or in the course of Diet deliberations was necessary in consideration of the tight deliberations schedule made Diet approval of the FY2013 budget by March 31, 2013 difficult. Put differently, the supplementary FY2012 budget as a 15-month budget, which was integrated with the FY2013 budget (which received Diet approval on February 26, 2013), amounted to 13,105,400 million yen as a whole, but the Special Account for Great East Japan Earthquake Reconstruction totaled only 317,700 million yen (refer to Table 4). The supplementary budget was relatively small in scale, but it was politically inevitable for the new Abe administration to formulate this budget from the viewpoint of giving a sense of relief to people in stricken areas. In the supplementary FY2012 budget, measures for reconstruction and disaster damage prevention amounted to 3,788,900 million yen. These included measures for accelerating reconstruction from the earthquake of 1,586,500 million yen (consisting of the Special Account for Great East Japan Earthquake Reconstruction of 317,900 million yen and an additional reconstruction revenue source of 1,268,500 million yen for the following fiscal year) and measures for preventing and reducing disaster damage of 2,202,400 million yen. The latter included 2,200,500 million yen budgeted in general accounts. Meanwhile, the former contained 1,586,200 million yen appropriated in the Special Account for Great East Japan Earthquake Reconstruction.

The cabinet decided the central government draft for the original FY2013 budget on January 29, 2013, but it took the Diet until May 15, 2013 to approve the draft budget (refer to Table 5). The central government got through the period until Diet approval of this draft budget with a provisional budget (approved on March 29, 2013). Reserves for acceleration of the

reconstruction and the restoration of Fukushima of 600,000 million yen are included in the Special Account for Great East Japan Earthquake Reconstruction that totaled 4,384,000 million yen. The original FY2013 budget gave consideration to the prioritization of a budget item called reconstruction and disaster damage prevention measures. Revenue sources for this item were special reconstruction taxes of 1,224,000 million yen, transfers from general accounts of 1,246,200 million yen, nontax revenues of 11,200 million yen and reconstruction bonds of 1,902,600 million yen. The composite of revenue sources can be said to have finally achieved a good balance two years after the earthquake.

• **Supplementary FY2013 and Original FY2014 Budgets (Draft)**

The election of members of the House of Councillors (upper house) on July 21 was the first political issue the central government faced in 2013. The LDP led by Abe won this election overwhelmingly and gained a free hand in management of the administration. The next issue was a political decision on whether to raise the consumption tax rate (from 5% to 8% in April 2014) with no modification in accordance with a law enacted under the DPJ administration led by then Prime Minister Noda. The Abe administration had to decide on the consumption tax increase sometime between the summer and fall of 2013. Abe announced his government's decision to implement the increase in accordance with the law in October 2013. Abe appears to be dealing with domestic political issues step by step.

Under such a circumstance, the Abe cabinet adopted Economic Measures for Realizing a Virtuous Circle (decided on December 5, 2013) to enforce the third arrow of Abenomics. In parallel with FY2014 budget formulation, the cabinet decided on the supplementary FY2013 budget on December 12, 2013 and gained Diet approval on February 6, 2014. In particular, amounts needed for bolstering measures for helping residents making an early return to Fukushima, accelerating community reconstruction that was getting into stride in tsunami-stricken areas, and rebuilding industries were appropriated in the Special Account for Great East Japan Earthquake Reconstruction of the supplementary budget for speeding up rehabilitation and reconstruction of earthquake-hit areas (refer to Table 6). The supplementary budget totaled 5,465,400 million yen. In the budget, reconstruction-related expenses amounted to 563,800 million yen<sup>14</sup>. Annual expenditures in the supplementary FY2013 budget included transfers to the Special Account for Great East Japan Earthquake Reconstruction of 1,930,800 million yen, which consisted of supplementation of revenue sources for reconstruction with the abolition ahead of schedule of the special corporate tax for reconstruction of 800,000 million yen and the guarantee of revenue sources for reconstruction of 1,130,800 million yen. Of these

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<sup>14</sup> As shown in Table 6, expenses related to reconstruction from the earthquake of 563,800 million yen consisted of 171,900 million yen appropriated for restoration of Fukushima, 228,300 million yen for community reconstruction, 132,900 million yen for reconstruction of industries, and 30,700 million yen for assistance to disaster victims.

transfers, 844,600 million yen (one half of the net surplus prescribed in Article 6 of the Public Finance Act) was allocated to the revenue source for redemption of reconstruction bonds. Special reconstruction taxes of 189,000 million yen (consisting of the special income tax for reconstruction of 10,000 million yen and special corporate tax for reconstruction of 179,000 million yen) were also included in annual revenues in the supplementary budget.

Table 6: Reconstruction Budgets --- Supplementary FY2013 Budget (decided by the Cabinet on December 12, 2013 and gained Diet approval on February 6, 2014) (Unit: 100million yen)

<b>1. Restoration of Fukushima</b>	<b>1,719</b>
○ Establishment of new subsidies for accelerating restoration of Fukushima	512
○ Acceleration of decontamination, etc.	805
<b>2. Community reconstruction</b>	<b>2,283</b>
○ Earthquake reconstruction subsidies	611
○ Recovery from disaster	650
○ Preparation of road reconstruction project	259
<b>3. Reconstruction of industries</b>	<b>1,329</b>
○ Subsidies for site locations for job-creating companies in tsunami- and nuclear disaster-stricken areas	330
○ Employment support, etc. in disaster-stricken area linked with the industrial policies*	448
<b>4. Assistance to disaster victims</b>	<b>307</b>
○ Benefits for housing reconstruction of disaster victims (housing reconstruction benefits)	250
<b>5. Perfection of nuclear disaster damage prevention measures, etc. in response to nuclear accidents</b>	<b>691</b>
○ Project responding to decommissioning and contaminated water	479
○ Enhancement and acceleration of nuclear disaster damage prevention measures	207
<b>6. Supplementation of revenue sources for reconstruction</b>	<b>8,000</b>
○ Supplementation with abolition one year ahead of schedule of the special corporate tax for reconstruction	8,000
<b>7. Additional reconstruction revenue source for FY2014 (redemption or reduction of reconstruction bonds)</b>	<b>5,670</b>
<b>Gross amount</b>	<b>19999</b>

Note: Prepared by the author based on framework for and outline of FY2013 supplementary budget

Following the practice in the previous fiscal year, the Abe cabinet appears to have adopted the policy of formulating and applying the supplementary FY2013 budget and original FY2014 budget in an integrated manner for uninterrupted implementing of economic measures and the budgets. However, the FY2014 budget was formulated earlier than the preceding fiscal budget. The cabinet decided on the central government draft on December 24, 2013. The general account budget for the central government amounted to 95,882,300 million yen in FY2014, up 3,270,800 million yen from the original FY2013 budget. Tax revenues, which grew by 6,905,000 million yen to 50,001,000 million yen, contributed significantly to the budget expansion. The Special Account for Great East Japan Earthquake Reconstruction totaled 3,646,400 million yen in the budget (refer to Table 7). This means that 4,210,200 million yen, including 563,800 million yen appropriated in the supplementary FY2013 budget, was secured particularly for the Special Account for Great East Japan Earthquake Reconstruction.

As annual revenue for the Special Account for Great East Japan Earthquake Reconstruction, the budget estimated special reconstruction tax revenues of 738,100 million yen, transfers from general accounts of 703,000 million yen, nontax revenues of 66,000 million yen and reconstruction bonds of 2,139,300 million yen. The budget also included in its annual

expenditure items a 4,000,000 million yen increase (from the current sum of 5,000,000 million yen) in the maximum amount of government bonds to be issued for contributing funds to the Nuclear Damage Liability Facilitation Fund from the Special Account for Energy Measures in an attempt to help the Tokyo Electric Power Company, Inc. finance compensation and expenses related to reconstruction from the nuclear disaster.

Table 7: Reconstruction Budgets --- FY2014 Government Budget Draft (decided by the Cabinet on December 24, 2013)

(Annual expenditure)

(Unit: 100 million yen)

<b>1. Expenses related to disaster relief, etc. (assistance to disaster victims by providing temporary housing, etc.)</b>	<b>739</b>
<b>2. Expenses related to disposal of disaster waste (disposal of mass rubble)</b>	<b>236</b>
<b>3. Public works related to reconstruction, etc.</b>	<b>9,163</b>
○ Reconstruction of disaster-stricken public facilities, etc.	5,130
○ Urgent preparation, etc. of road reconstruction and road reconstruction support project	1,706
<b>4. Expenses related to financial assistance in connection with the disaster (assistance to SMEs, small-scale enterprises and agriculture, forestry and fisheries industry in the disaster-stricken areas)</b>	<b>221</b>
<b>5. Tax revenues distributed to local governments (revenue source for special distributions for disaster reconstruction)</b>	<b>5,723</b>
<b>6. Subsidies for earthquake reconstruction</b>	<b>3,638</b>
<b>7. Expenses related to reconstruction from the nuclear disaster</b>	<b>6,523</b>
○ Decontamination (including disposal of radioactively contaminated waste) (Note 1)	3,912
○ Preparation of interim storage facilities (Note 3)	1,012
Subsidies for acceleration of restoration of Fukushima (support for early return home and support for long-term evacuees)	1,186
<b>8. Other expenses related to the earthquake</b>	<b>3,299</b>
○ Construction work for earthquake-resistant school facilities	719
○ Subsidies for site locations for job-creating companies in tsunami- and nuclear-disaster-stricken areas	300
○ Disaster recovery projects for public facilities, etc. of SME cooperatives, etc. (group subsidies)	221
○ Reconstruction of agriculture, forestry and fisheries industry (support for recovery of productivity and selling capacity in agriculture industry, support for recovery of fisheries industry, etc.)	228
<b>9. Transfers to special account for Government Bonds Consolidation Fund</b>	<b>921</b>
<b>10. Reserves for acceleration of reconstruction and restoration of Fukushima</b>	<b>6,000</b>
<b>Gross amount</b>	<b>36,464 (Note 2)</b>

(Annual expenditure)

(Unit: 100 million yen)

<b>1. Special reconstruction taxes</b>	<b>7,381</b>
<b>2. Transfers from general accounts</b>	<b>7,030</b>
<b>3. Nontax revenues</b>	<b>660</b>
<b>4. Reconstruction public bond revenues</b>	<b>21,393</b>
<b>Gross amount</b>	<b>36,464</b>

Note 1: Tokyo Electric Power Company, Inc. will be asked to compensate for these expenses (The maximum amount in government bonds to be issued for the Nuclear Damage Liability Facilitation Fund from the Special Account for Energy Policy to help Tokyo Electric Power Company, Inc. manage its funds to bear the compensation and expenses is increased by 4 trillion yen [currently 5 trillion yen])

Note 2: 4,210.2 billion yen when combined with FY2013 supplementary budget (563.8 billion yen)

Source: "Points in FY2014 Budget"

Looking at developments up to this point, preparations for restoration and reconstruction appear to have been almost completed as the intensive reconstruction period (FY2011-FY2015) approaches its final stage nearly three years after the earthquake. However, many issues that

must be overcome still certainly exist when we examine the developments closely one by one. I will discuss those remaining problems and challenges next by touching on roles played by the Reconstruction Agency.

## **Achievements by the Reconstruction Agency**

### **• Reconstruction Grants**

As we can confirm in a chronological table in Table 3, the Reconstruction Agency began to operate on February 10, 2012 based on the Act on Establishment of the Reconstruction Agency enacted on December 9, 2011. The first action that made the Reconstruction Agency a topic of conversation was notification of the issuable amount of reconstruction grants (for the first time) on March 2 immediately after the Agency's operational launch. To begin with, reconstruction grants, based on Article 77 of the Act on Great East Japan Earthquake Special Recovery Areas (enacted on December 7, 2011), support the rebuilding of urban districts, which is difficult to address with restoration alone, in areas greatly damaged by the earthquake comprehensively through one business plan submitted. Reconstruction grants were announced as an extremely flexible program that goes beyond existing grants. They were said to put together a wide range of projects needed for community reconstruction, realize projects for promoting effects with high degrees of freedom, compensate for all local burden and relax execution through a fund from a user standpoint.

The application of reconstruction grants began with the third supplementary FY2011 budget. On the first occasion (March 2, 2012), allocated amounts (operating expenses of 305,500 million yen and state expenditures of 251,000 million yen) fell substantially short of requested amounts (operating expenses of 499,100 million yen and state expenditures of 389,900 million yen). This was a shocking result to requesting local governments and many Japanese citizens. Many people felt the grants in no way differed from past subsidies and viewed the result as disappointing and exhausting for local governments in stricken areas burdened with many handicaps. The central government reflected on this situation and began giving notification of allocated amounts larger than requested sums on the second (May 25, 2012) and subsequent occasions. However, this practice also caused confusion at some of the local governments.

In any event, reconstruction grants allocated on the first occasion (March 2, 2012) to the seventh occasion (November 29, 2013) came to amounts (operating expenses of 2,233,900 million yen and state expenditures of 1,806,200 million yen) greater than requested sums (operating expenses of 2,071,300 million yen and state expenditures of 1,621,600 million yen). The central government by (1) putting together a wide range of projects needed for bringing residents back and rebuilding communities in stricken municipalities, (2) recognizing projects related to them that can be expected to further effects, and (3) taking measures for reducing local burdens, including an increase in the state subsidy rate and an addition to the tax allocated to local governments is (4) relaxing execution and simplifying procedures. We can say these steps have greatly improved the situation.

### • **Withdrawal-type Reconstruction Grants**

Next I will explain withdrawal-type reconstruction funds related to the earthquake. This system was established in FY2011 to provide capital, which organizations in stricken areas can use flexibly and carefully for purposes including stabilization of residents' lives, community restoration, promotion of the local economy and employment maintenance, in accordance with actual regional conditions and outside the framework of one-year budgets, for achieving reconstruction from the earthquake. Withdrawal-type reconstruction funds were adopted because traditional management-type ones were not effective under the existing condition of low interest rates. Withdrawal-type funds were established with the existing special tax allocated to local governments, which was increased through the second budget supplementation in FY2011 based on measures taken in response to the Great Hanshin-Awaji Earthquake, assuming cases where nine prefectures, which are specified disaster-stricken local governments, would set up such funds. Such funds amounted to 196,000 million yen in the nine prefectures. These funds surpassed 96,000 million yen distributed through the Great Hanshin-Awaji Earthquake Reconstruction Fund.

In short, the latest earthquake caused damage all at once. In the meantime, fiscal measures reached a level and scale that many individual local governments could not easily absorb because they too were prepared all at once in large quantities. Sustainable ideas and energy could arise if we take a little more time to examine and work on reconstruction projects, instead of strictly adhering to one-year budgets and imposing the view that quick reconstruction is the goal of reconstruction projects. Withdrawal-type reconstruction funds represent such a stance of taking things more slowly.

### • **Are Budgets Related to Reconstruction Executed Properly?**

As stated in the previous paragraph, the earthquake caused damage that was huge in size and area. For that reason, fiscal measures aimed at restoration and reconstruction grew massive and extremely broad in range. Causes and effects were complicated, too. Understanding and solving them decisively were not easy tasks. The overall picture of reconstruction budgets is quite hard to grasp accordingly. However, the extent to which each budget item is used will be an important clue for assuming the needs and abilities (execution capacity) of disaster-stricken municipalities. For example, the State of Execution for Budgets Related to Reconstruction is put in order in Table 8. This shows sum totals for budgetary measures carried forward to the general accounts for the FY2011 budgets (reserves, and first to third supplementary budgets) and for the Special Account for Great East Japan Earthquake Reconstruction. The table lists annual expenditures budgeted, annual expenditures paid, transfers to the following fiscal year, the amount of unneeded expenses, the execution rate, transfer rate and unneeded expense rate the Reconstruction Agency arranged in order under respective budgetary classifications.

Table 8: Implementation of reconstruction-related budgets

Implementation of FY2012 expenses related to recovery and reconstruction from the Great East Japan Earthquake (FY2011 General Accounts (carried-over amount) + FY2012 Special Accounts) (as of end of FY2012)

(Unit: 100million yen, %)

Category	Annual expenditure budget (A)	Amount of already spent budgeted funds for the expenditure (B)	Carried-over amount to the following fiscal year (C)	Amount of unused budgeted funds for the expenditure (D)=(A)-(B)-(C)	Rate of execution (B)/(A)	Rate of carried-over amount (C)/(A)	Rate of amount of unused budgeted funds for the expenditure (D)/(A)
Assistance to disaster victims	50,092	3,523	51	1,517	69.2%	1.0%	29.8%
Assistance for lives	3,205	1,795	-	1,410	56.0%	0.0%	44.0%
Education, medical care and welfare	913	858	-	55	94.0%	0.0%	6.0%
Mutual assistance activity	805	714	51	39	88.7%	6.4%	4.9%
Other	167	155	-	12	92.6%	0.0%	7.4%
Restoration of infrastructure, etc. and community reconstruction	47,331	26,563	13,707	7,060	56.1%	29.0%	14.9%
Disposal of disaster waste, etc.	7,384	3,488	3,810	84	47.2%	51.6%	1.1%
Public works (recovery from the disaster)	14,009	5,016	4,498	4,494	35.8%	32.1%	32.1%
Recovery of disaster-stricken facilities, etc.	4,963	2,108	102	1,828	42.5%	20.7%	36.8%
Public works, etc. for reconstruction	4,275	2,157	1,586	531	50.5%	37.1%	12.4%
Housing	661	578	5	78	87.4%	0.8%	11.8%
Subsidies for earthquake reconstruction	16,036	13,213	2,780	43	82.4%	17.3%	0.3%
Promotion of industry and job security	8,133	5,415	1,919	799	66.6%	23.6%	9.8%
Industrial promotion	7,182	4,592	1,914	675	63.9%	26.7%	9.4%
Disaster-related financing	1,567	1,531	-	36	97.7%	0.0%	2.3%
Support for SMEs, project for assisting site location, etc.	2,719	1,285	1,310	123	47.3%	48.2%	4.6%
Support for reconstruction of agriculture, forestry and fisheries industry	1,401	841	246	313	60.0%	17.6%	22.4%
Research development, reproducing energy, etc.	1,493	934	357	201	62.6%	23.9%	13.5%
Job security	618	528	-	89	85.5%	0.0%	14.5%
Other	333	294	4	34	88.3%	1.4%	10.3%
Reconstruction and restoration from nuclear disaster	8,659	3,690	3,386	1,582	42.6%	39.1%	18.3%
Measures for damage caused by rumors, food security, etc.	228	172	7	47	75.8%	3.5%	20.7%
Decontamination, etc.	6,556	2,105	2,939	1,511	32.1%	44.8%	23.1%
Preparation of research and development sites, etc.	1,332	1,149	164	18	86.3%	12.3%	1.4%
Revitalization of hometowns	208	0	207	0	0.2%	99.8%	0.0%
Other	333	261	67	5	78.3%	20.1%	1.6%
Tax revenues distributed to local governments	6,704	6,704	-	-	100.0%	0.0%	0.0%
Expenses for national disaster damage prevention	10,458	6,911	2,965	581	66.1%	28.4%	5.6%
Other	11,023	10,323	-	700	93.6%	0.0%	6.4%
Total	97,402	63,131	22,030	12,240	64.8%	22.6%	12.6%A

Note: The figure is the total amount of reserves for the general account budgetary measures for FY2011 (reserves, first to third supplementary budgets) (carried-over-amount) and the Special Account for Great East Japan Earthquake Reconstruction

Source: Prepared based on Reconstruction Initiatives and Various Related Systems published by the Reconstruction Agency on January 17, 2014

Looking at totals, annual expenditures budgeted were 9,740,200 million yen, annual expenditures paid were 6,313,100 million yen, transfers to the following fiscal year were 2,203,000 million yen, the amount of unneeded expenses was 1,224,000 million yen, the execution rate was 64.8%, transfer rate was 22.6% and unneeded expense rate was 12.6%. Reconstruction and restoration from the nuclear disaster posted the lowest execution rate of 42.6% and the highest transfer rate of 39.1%. The unneeded expense rate was highest for assistance provided to disaster victims, at 29.8%. We cannot unconditionally say any particular project was useless or project objective was weak based on the levels of these figures because conditions and backgrounds exist for each of the figures. If anything, reasons for the high or low execution rate, transfer rate and unneeded expense rate despite project objectives are precisely where problems exist. From such a viewpoint, we can say present and future issues ultimately come down to reconstruction and regrowth from the nuclear disaster. I feel the central government and private sector (companies, academia and ordinary citizens) must take more settled initiatives in a concerted manner.

## **Conclusion**

Voices of support to disaster victims and stricken areas, concrete volunteer actions and the like have risen overwhelmingly not only among many Japanese citizens but also among people abroad since the period immediately after the earthquake. People also donated their own money for relief. According to information the Reconstruction Agency released on January 17, 2014, about 90% of 369,800 million yen in donations made to the Japanese Red Cross Society and other relief organizations had been distributed to disaster victims in the period through September 30, 2013. Cases of donation distribution totaled 1,710,000. Disaster condolence money totaling 58,100 million yen had been paid in 19,542 cases. A total of 136,250,000 yen had been paid in 81 cases as ex gratia disaster impairment payment. Looking at the state of supply for financial support designed to put disaster victims' lives back in order, 188,667 households received basic donations and 105,749 obtained additional grants. Supplied amounts came to 150,300 million yen for basic donations and 128,600 million yen for additional donations. These amounts are by no means small. The amounts donated may not have been enough, but we can say that the goodwill of many people has certainly reached disaster victims in tangible ways.

In the meantime, it has been hard to say that the so-called hometown tax payment system, a program promulgated on April 30, 2008 that gives taxpayers the option of diverting part of their residential tax to a specified local government, went into wide use. For the record, taxpayers who used this program, the amount paid to specified local governments through the program and the sum deducted came to 33,149, 7,300 million yen and 1,900 million yen in 2008; 33,104, 6,600 million yen and 1,800 million yen in 2009; and 33,458, 6,700 million yen and 2,000 million yen in 2010, respectively. It may be hard to believe but these same figures rose to 741,667, 64,900 million yen and 21,000 million yen in 2011. In other words, program users increased 20 times and the amounts paid and deducted grew 10 times. Their upsurges seemed

to suggest that many Japanese citizens woke up to the need for social contribution as a result of their encounter with the situation that was the Great East Japan Earthquake, which had not been assumed at the point of the system's introduction. However, the program use for such purpose decreased sharply in 2012. It became evident that the majority of people used this system with the aim of receiving local specialties from their hometowns (local governments to which they donated their tax money). In short, it is hard for a feeling of goodwill to last.

In that connection, the special income tax for reconstruction adds a 2.1% tax to the income tax for 25 years. I was initially critical of this tax increase that remains in effect for an extremely long period, thinking it was a system excessively lacking a sense of reality. However, reflecting on the course of events for the hometown tax payment and other preceding systems, I now feel a system cannot have real significance unless it works on people in a compulsory manner to a certain extent, even if a tax rate is kept low in that way for the special income tax for reconstruction. Regrettably, I cannot adopt the position that humans are born good as far as tax systems are concerned.

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