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**Building the Foundations for
the Revitalization of the Japanese Economy**
2006 New Year Statement

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Introduction

The year 2005 was a major turning point for both the Japanese political world and the economy.

The Liberal Democratic Party enjoyed a sweeping victory in the House of Representatives election last September, representing clear validation of Prime Minister Junichiro Koizumi's structural reform policies as well as public support of the prime minister's strong political leadership.

The Japanese economy steadily traced a gradual recovery path powered by the private sector, a trend which has been in place since 2002. The expansion of corporate earnings has led to the amelioration of the employment situation, and wages are also increasing little by little.

Prime Minister Koizumi's structural reforms have enabled the Japanese economy to successfully break through the impasse it has long faced, and this has shown that the creation of a society led by the private sector—a society in which the private sector is entrusted with the role of key player in the economy—is a way to promote autonomous economic recovery and achieve sustainable prosperity for Japan.

The year 2006 will be a time for strengthening the institutional framework to accelerate structural reforms founded on the basic policy of transferring activities “from the public to the private sector” and “from the central to the local government.” At the same time, to further ensure the establishment of a society led by the private sector, 2006 must be a

year where we build the foundations for enhancing the vitality of the Japanese economy and society.

1. Building a Foundation for Fiscal Restructuring

The government's draft budget for fiscal 2006 has been formulated, capping new government bond issuance at less than 30 trillion yen and limiting annual expenditures to below 80 trillion yen. This has drawn favorable responses as the first step toward fiscal restructuring. For Japan which is facing a decrease in its population, the fiscal deficit is the greatest threat, and fiscal restructuring has just gotten underway. The Koizumi administration should implement bold policies to accelerate the reduction of the deficit during the prime minister's term of office.

First, a “comprehensive review of the balance sheet” should be undertaken with an eye to drastically reducing expenditures. In addition, it is important that we endeavor to limit the burden on the public, including not just the tax burden but also the social insurance burden, based on the knowledge that increasing the public burden will lead to a dampening of Japan's economic vitality. We urge the Koizumi administration to enact a law to promote fiscal soundness in order to build a foundation for fiscal restructuring based on a “comprehensive review of the balance sheet.”

Second is resolute implementation of administrative reforms that have already been started. It is indispensable that measures be taken to bolster nascent reforms, such as the reform of the public servant system, the reform of government assets and liabilities, and the reform of special accounts, including the system of earmarked revenue sources.

Third is the promotion of local government administrative and fiscal reform. Regarding the “three-in-one reforms” at the central and local government level, radical measures must be taken with an eye to addressing the insufficient cuts in local government expenditures and inadequate reforms in local allocation tax in addition to further reforming subsidies and transferring tax revenue sources. Moreover, I hope to see in-depth discussions toward introducing a new regional administrative system (doshu-sei) be furthered in the future.

At the same time, if we business leaders are asking the government to reduce their expenditures, we also must be prepared to manage our corporations without retaining vested interests or relying on subsidies from the government.

2. Building a Foundation for Strengthening the Vitality of the Japanese Economy

Japan has entered the era of population decline earlier than expected. To maintain economic vitality amid these circumstances, we must raise the productivity of society overall and develop human resources and corporations that can create high value added.

For this reason, **first, we business leaders must build corporations with formidable international competitiveness by introducing management innovations.** It is important that we ceaselessly make efforts to develop technology, create new markets, develop human resources, and reform corporate governance, without being content with improving business results through economic recovery.

Second, it is necessary to shift the emphasis in industrial policies to support for new business creation. The key to revitalizing the Japanese economy is to develop a society in which venture corporations that accelerate corporate metabolism and initiate innovation are launched one after the other. In particular, it is urgent that tax system reforms be made to promote the supply of venture capital in the business startup phase.

Third, it is vital that we revitalize the service industry and other industries where there is room for productivity enhancement by easing regulations and opening public-sector activities to the private sector. In addition, to expand the market for Japanese companies, it is crucial that maximum efforts are made to achieve the goals of the WTO Doha Round and to promote free trade agreements and economic partnership agreements. To accomplish this, we must not simply ask developing countries to make concessions; we must seek a complete transformation through bold thinking from the standpoint that development of the world economy will lead to the revitalization of the Japanese economy.

Fourth, to develop human resources that can contribute to corporate competitiveness, we are called to implement educational reform and boldly shift the allocation of government resources to support childrearing and young people, with an eye to developing the next generation.

3. Building a Foundation for Enhanced Independence and Trust in Japanese Society

The true “private sector–led society” that we seek must be backed by the two basic principles of independence and trust.

First, by promoting independence, we need to build a society where taking on new challenges and using one’s ingenuity and creativity lead to new dreams and are the source of economic vitality. Independence is criticized as being the “logic of the strong that leads to the abandoning of the weak.” However, quickly seeking support without making efforts oneself has, on the contrary, given rise to a situation where people who truly need support are forgotten and are not given aid. We need a framework where those who have made efforts are rewarded and can try again if they fail while at the same time a strong helping hand can be extended to people who have difficulty competing due to various obstacles.

Second, developing trust is an urgent issue. Every time I hear about the various incidents that have occurred in Japanese society recently, I keenly feel that our society is losing a sense of trust. For example, there has been a rash of scandals in corporate management that threaten public safety and are greatly undermining people’s trust. These are criminal acts rather than issues of corporate social responsibility (CSR), and I am incensed. To restore public trust in corporations, we business leaders must review our own management once again. It is our responsibility as corporate executives to strengthen our efforts to create sound companies by performing a general review of our internal structures from the perspective of asking ourselves whether we are engaging in sound competition, whether we are participating in any antisocial activities, and whether we are demonstrating leadership in ensuring workplace discipline. Moreover, there are concerns about the deterioration of public safety in communities, including the increase in heinous crimes targeting children. We need to reexamine once again spiritual issues

that Japanese society has traditionally valued, such as ethics, morals, and the sanctity of life, and the role of such things as education.

I would like to see 2006 be a year of building a society characterized by independence and trust based on self-responsibility.

Conclusion

In the nine months remaining to Prime Minister Koizumi's term of office, it is crucial that an institutional framework be created to solidify the basic policies of the prime minister's structural reforms, namely, shifting activities "from the public to the private sector" and "from the central to the local government." For people to have confidence in a bright future, it is the responsibility of the current generation to continue to accelerate structural reforms—innovations that build systems and practices appropriate for the creation of new values—through the creative destruction of systems and practices that no longer suit the age. In the months remaining, I would like to see the Koizumi administration build foundations that secure a future path of reform that cannot be reversed. This would be the crowning accomplishment of the Koizumi structural reforms.