

January 1, 2009

Building a Society Where the Young Can Hope
2009 New Year Message

Masamitsu Sakurai
Chairman, Keizai Doyukai

1. The Current Situation

Following on the heels of the financial crisis spawned in the United States, the world global economy is now in the grips of a simultaneous economic downturn. Japan has not remained unaffected. The process of adjustment in production, output capacity, and employment that started in the manufacturing industries is now spreading to the non-manufacturing sector. Although it was originally believed that Japan's financial and capital markets would remain be less seriously affected by the financial crisis, companies are beginning to experience difficulty in procuring funds in these markets this sector too. It is now clear that the Japanese economy is being inexorably swallowed into the negative spiral that has enveloped the global economy and its financial system.

These developments must not be viewed merely as the signs of an economic downturn triggered by a financial crisis. Rather, it is critically important to understand that one of the underlying factors in the current crisis is the growing imbalance that has characterized the world economy in recent years—an imbalance in which the structure of excess consumption in the U.S. economy has been supported by excess savings of in Japan and other Asian countries and the oil money of the Middle East Middle-Eastern oil money. Therefore, the challenge the world faces today must be viewed as the challenge of is one of implementing economic structural adjustment on a global scale. While it is clear that the countries of the world must adopt emergency measures to respond to immediate problems, it is just as important and necessary for them to address longer-term structural problems with a true sense of urgency.

As the world moves forward on economic structural adjustment, Japan also too must look beyond emergency measures to earnestly engage in revitalizing its economy and stimulating domestic demand. As for the Japanese public, its anxiety over the future of the economy, the social security system, and employment outlook is growing, and people are sinking deeper into the gloom of economic stagnation. A general election of the House of Representatives will be held no later than the fall of this year. Given the current situation, this election must be used as an opportunity to deepen substantive policy debate, including medium to long-term policies for structural reform, and to break through the impasse that is so gravely dampening public sentiment.

The solution of Solving these problems implies nothing other less than the realization of a society that will enable the empower upcoming generations to strive and succeed both in Japan and abroad. It is for this reason that, as we welcome in the New Year, the Keizai Doyukai is advocating 2009 should be as the year in which the first steps are taken toward building a “Society Where the Young Can Hope.”

2. Positive Use of the Markets

The turmoil in the U.S. financial and capital markets and discussions of growing economic disparity in Japan have generated an increasing number of arguments pointing to the problems of market-based resource allocation. In extreme cases, the very function of the market has been called into question and rejected. Certainly the market is not perfect. But it remains the only framework that we have for efficient resource allocation. Nothing positive can be gained from rejecting the market and its functions.

Today, our aim should be to create sound markets and to ensure that market mechanisms function properly. For this purpose, we must re-examine how to promote the further development of markets and positive use of their functions. This subject must be approached with a commitment to raising the ethical standards and accountability of market participants, strengthening market surveillance systems, and reinforcing market

discipline. Any steps toward building a “Society Where the Young Can hope” must be fully consistent with economic and social systems that are centered on sound markets.

3. Measures for Building a “Society Where the Young Can Hope”

The first step that must be taken is the solution of priority is solving the “employment problem.” While this is of immediate import, it is of no less importance important as a structural challenge that has to be resolved over time. The so-called “employment ice age” of the 1990s gave rise to various structural problems, such as the growth of non-regular employment. To solve these structural problems, the Keizai Doyukai proposes the start of tripartite consultations at the earliest possible date involving the three communities world of politics (the government and the ruling and opposition parties), labor, and business. The agenda for consultation should include the following: (1) Formulating policies for the advancement of agriculture, forestry, and fishery industries and the revitalization of service industries, and the development of a framework for promoting the movement of labor to these sectors. (2) Developing safety net systems for non-regular employment. (3) Facilitating employment adjustment in the context of a changing industrial structure.

The second step involves the establishment of sustainable social security systems. Regarding the pension system, there is already a strong prevailing sense that the current framework is unfair to the younger generations in terms of the burdens they must bear and the benefits they can expect to receive. Fundamental pension reform must be implemented to gain the confidence of the young, such as the creation of a new tax-financed basic pension system. Moreover, as a result of falling birth rates, the aging of society, and declining population, there is growing evidence of systemic fatigue in all aspects of the pension system. This underscores the need for integrated fundamental reforms that address both tax and fiscal systems and the creation of sustainable social security systems.

In the third step, Japan must reaffirm that structural reform is absolutely essential crucial. Call to Keep in mind that the combined long-term debt of the central and local governments is now approaching the 800 trillion yen mark. Implementing structural reforms “from the public to the private sector” and “from the central to the local government” and realizing “small government” are critically important in lowering the excessive burdens facing younger generations and while sweeping away fear and anxiety for concerning the future. For this reason, the following reforms must be acted on with due speed: an integrated program of social security, tax, and fiscal reforms; a broad range of administrative reforms, including the reform of the public service system; deregulation; and decentralization and the introduction of a new regional administrative system (doshu-sei).

The fourth step must involve measures to stimulate and expand the mutual two-way movement of people, goods, and capital between Japan and the rest of the world. To revitalize this country, it is essential for Japan to take the initiative in ensuring that its markets are open to the world in terms of the movement of people, goods, and capital. Having said that the imbalance in the global economy must be eliminated through structural adjustment, the adoption of effective measures to stimulate domestic demand constitutes a challenge that Japan cannot avoid. Japan must take an active and positive stance in negotiating free trade agreements and economic partnership agreements that are aimed at increasing incoming direct investment and promoting market liberalization. In addition, Japan must act to build a society that lends its full support to its young who are working on the global stage and contributing to the international community.

As the a fifth step, we need to understand that a low carbon society constitutes the foundation of for a “Society Where the Young Can Hope.” Climate change caused by global warming entails irreversible changes. The entire world must share a common sense of urgency and an awareness of the incalculable risks involved. And with this awareness, worldwide efforts must be made to combat global warming. The international community is moving toward COP15 and the formulation of a new post-Kyoto framework, and full-fledged efforts will be launched for toward the realization of low carbon societies throughout the world. During the first half of 2009,

consultations for the establishment of medium-term national targets will reach their climax. In this context, “Japan’s role and responsibility” in the formulation of medium- to long-term targets and the realization of low carbon societies must be clearly displayed to the international community. Moreover, by taking the initiative and rising to action, Japan must would exhibit leadership in this undertaking.

As the sixth step, corporate executives must continue to press forward on management reforms that will enable Japanese corporations to respond to the requirements of global structural adjustment and also take the lead in the global adjustment process. Corporate executives must work toward improving social and economic conditions and contribute to the enhancement of the lives of the people. This they must will do by constantly engaging in technological innovation, by reforming their business processes, by creating new products and new businesses, and by boosting productivity. Finally, corporate executives must should make every effort to maintain and to expand employment by achieving continued growth and development.

Such management reform programs must will promote the transition to forms of management that are based on medium- to long-term perspectives and an emphasis on multiple stakeholders. It is in difficult times such as these that action is expected of corporate executives. To ensure sustained growth and development, corporate executives are being called on to invest positively in forward-looking reforms from a long-term standpoint. The economy is currently undergoing a period of precipitous downturn. Under these conditions, as mentioned earlier, the challenge of maintaining employment is not one that can be borne by individual businesses acting alone. However, with the awareness that employment is an issue for the whole of society, it is hoped that due caution will be exercised in undertaking employment adjustment. What this implies is the practice of the New Style of Japanese Management and the building of stronger and more reliable companies.

4. The Forthcoming General Election and Political Expectations

It is We earnestly hope that politics will play a strong leadership role in the advancement of Japan toward a “Society Where the Young Can Hope.” The forthcoming general election, which must be held no later than the fall of 2009, should be recognized as an election to decide who will lead Japan going forward. Therefore, all political parties are called on to produce a responsible manifesto and to engage in substantive policy debate.

It is hoped that these manifestos will clearly present to the people the “vision for Japan” that each political party intends to pursue. First of all, the “vision for Japan” should offer a vision for society that is attainable within a certain timeframe through the implementation of a series of interrelated key policies. Secondly, it should provide a balance sheet of costs defrayed and benefits received. Thirdly, the “vision for Japan” should be such as to allow the people to develop a clear mental picture of the future society that is being proposed. Building on this foundation, each political party should present a list of specific policies that it intends to implement to cope with both immediate and longer-term challenges. To ensure proper monitoring of the implementation of that these stated policies are properly implemented and the adoption of necessary improvements adopted (PDCA cycle), an order of priority should must be clearly established for these policies, together with a timetable for their implementation and their sources of funding. It is hoped that In this way the political parties will in this way carry out their duty of indeed be accountable to the public.

As a minimum requirement, all manifestos should cover the following specific policy matters: (1) Clear indication of the costs and benefits accruing to the people from fundamental reforms in social security systems and tax and fiscal structures. (2) Transformation of Japan’s industrial structure corresponding to the process of global economic adjustment. (3) Design of systems for establishing local and regional autonomy. (4) Basic principles and action plan for building a low carbon society. (5) Developing education systems that foster human resources a workforce capable of competing and succeeding on the global stage.

5. Actions by the Keizai Doyukai

The Keizai Doyukai has long functioned under the belief that corporate executives and the corporate sector have an important role to play in free societies. Guided by this belief and a sense of solidarity, the Keizai Doyukai has taken the initiative over a broad range of issues and challenges to work toward the realization of better social and economic conditions and the improvement of the livelihood of the people life in general. Our aim has been to contribute to the realization of a more affluent society and the achievement of harmony and growth in the world economy, and our mission has been to continuously undertake bold challenges with our sights set firmly on the unfolding future age generations. And we have shared the foresight that this perspective has afforded us by publishing and releasing the results of our discussions and inquiries to the public. Today, we must remain undaunted by the very harsh economic conditions that surround us. Now is the time for the Keizai Doyukai to return to its founding principles and to positively resolutely engage in resolving the difficult challenges that face Japan.

Today, we observe see that public confidence in the functions of the market has been shaken. As our first initiative for 2009, therefore, a new committee will be formed to re-examine the conditions of market-based social and economic systems, which are fundamental to the achievement of sound and stable growth in the Japanese economy. This committee will be established promptly without awaiting the start of the new fiscal year in April.

As our second initiative for 2009, Keizai Doyukai will once again return to the subjects of tax and fiscal reform and the reform of social security systems, issues on which The Keizai Doyukai has frequently issued recommendations in the context of structural reform. We will undertake new studies reflecting recent changes in the social environment to recalibrate the structure of the costs and benefits that Japanese society will face in the future. Based on these studies, Keizai Doyukai will issue new proposals.

As our third initiative for 2009, the Keizai Doyukai will tackle the subject of employment as an urgent structural challenge. Issues related to non-regular employment have emerged as increasingly serious problems, and we are acutely aware that the current recession may reintroduce a whole new set of challenges for the employment of the younger generations, including the problems situation of people not engaged in employment, education, or training (NEETs) and those who live on off a series of part-time jobs (freeters). With this in mind, a new committee will be formed to inquire into employment problems. This committee will also be established promptly without awaiting the start of the new fiscal year in April.

Finally, even as economic structural adjustment proceeds on a global scale, we will continue to work toward the realization of sustained corporate growth and development. For the achievement of this goal, the Keizai Doyukai reaffirms its commitment to the implementation and acceleration of management reforms based on the concepts of “starting from positions of strength” and “winning the confidence of the world” as enunciated in our proposals for a New Style of Japanese Management.