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Building the Foundations for New Growth through "Innovation"

Chairman's Address for the 1998 Annual Meeting

Jiro Ushio

Chairman, Keizai Doyukai

Introduction

Prime Minister Hashimoto has been widely praised both in Japan and abroad for his efforts to revise part of the Fiscal Structural Reform Law and to convert government priorities into economic stimulus measures. However, discontent has spread at home and overseas because subsequent debate regarding specific policies for expanding domestic demand has increasingly focused on discretionary stimulus measures that do not lead to structural and systematic reforms, such as special tax cuts and the restoration of public investment along lines used before.

A year and a half ago, the Hashimoto Administration decided to straightforwardly accept the international standards of a market economy, (i.e., "free," "fair," and "global") and to implement, starting in April of this year, the Japanese Big Bang. This decision deserves praise, and expectations had run high concerning this and the parallel "Six Reforms" that the administration has also pursued. It is confident that structural reforms based on market principles will be fully absorbed by the Japanese people and Japanese corporations and will open the way to new development which has been proved by the success that was experienced by the manufacturing industry in dealing with the strong yen in the wake of the Plaza Accord signed in 1985.

I. Economic Stimulus Measures to Promote Structural Reforms

Structural reforms we aim are the one that radically revise traditional system and scheme, and that form social economic system to cope with international market principles accepted internationally toward the 21st century.

Policies aimed at expanding domestic demand are not in conflict with the immediate need for structural reforms. In fact, the rapid implementation of institutional reforms that will help Japan reduce government size and promote an economy led by the private sector will ultimately help to increase the effectiveness of economic stimulus measures.

Tracing the flow of structural reform, it is apparent that the expansion of domestic demand must focus on private sector, and that this can be achieved through the expansion of the private economic sector by such means as tax cuts, deregulation, and privatization. With regard to public investment, the private economic sector can be revitalized through the effective use of such measures as: new project-oriented public investment; prioritized distribution to new infrastructure that will encourage national growth in the 21st century; the adoption of open and transparent methods for placing orders; and the introduction of Private Finance Initiative methods.

Within this context, radical tax reform should take center stage as the method used to elicit the vitality of individuals and companies and to expand domestic demand in the private sector. As we have been repeatedly proposed, the following measures should be introduced in fiscal 1999 at the latest: the effective corporate tax rate should be reduced to 40%, and the progressive scale employed for personal income tax should be narrowed as well as tentatively reducing the maximum rate to 50% for now, and ultimately to 40%. If we assume that these reforms will indeed be implemented in fiscal 1999, then any special tax cuts introduced in this fiscal year should be done on a flat-rate basis in order to pave the way for reducing maximum tax rates and narrowing the progressive scale. With regard to corporate tax rates, I believe that the gap between fiscal 1998 rates and the effective rate of 40% slated for fiscal 1999 should be closed through a special tax cut to be implemented in fiscal 1998.

Another pillar of action to expand domestic demand consists of abolishment of various regulations. It is necessary to establish the principle that activities which can be done by private sector should be left to the private sector. Since economic activities are based on the freedom of individual people, the vitality of private companies will be redeemed if regulations become exceptional in common sense. The new conception is required to establish a new rules and surveillance systems for the market mechanism, as well as to define activities to be and not to be left to the market mechanism by discussion between public and private sectors.

The above structural reforms will result in the expansion and revitalization of the private economic sector, which will in turn restore the vitality of the Japanese people and private companies, who in earlier decades led Japan through its period of high economic growth. Discretionary or temporary measures that are disconnected to structural reforms will not receive the positive backing of either individuals or companies, and tax cuts made in this fashion will probably end up in savings accounts instead of boosting domestic consumption. If it becomes evident that Japan is surely and steadily reforming its underlying system, however, private sector will no doubt actively participate in economic revitalization.

Concerning the implementation of the Japanese Big Bang, signs are already evident that overseas financial institutions will be opening offices in Japan. This should provide Japan's stagnant financial sector with tremendous stimulation and energy. One issue of pressing importance is the need to deal with the bad debt that has hobbled financial revitalization. I believe it is essential for companies to boldly and quickly dispatch with these concerns through the forward-looking utilization of the new financial system that is being created within the context of comprehensive economic stimulus measures.

Along with the establishment of foreign financial institutions in Japan through the Japanese Big Bang, it is also extremely important to expand direct foreign investment in Japan in all sectors. Today, Japan's foreign invests are 13 times greater than those invested into Japan from overseas. This is a major reason why Japan's economy is hollowing out and why the Japanese market lacks appeal.

If, through the structural reforms as we propose, Japan's market begins to operate under conditions that are comparable to the international standard, we can expect foreign companies to flock to Japan to take advantage of the high-level capabilities of the Japanese people, the active organizational power of Japanese corporations, Japan's huge latent purchasing power, and the important place Japan occupies within the Asian economy.

We must recognize that Japan's future economic prosperity depends on coexistence with companies in other countries. For this reason, as well, Japan must respond honestly to the strong demand for structural reforms that is harbored by the rest of the world.

II. Corporate Reforms Aimed at Redemption of Confidence

The most important issue currently confronting us executives and the companies we run is the redemption of public trust. Rather than making demands on politicians and administrators, we must concentrate all our efforts on meeting the challenge of the market.

The first step for achieving this goal is to form corporate structure based on independence and solidarity, which individuals play major roles. This means developing mobile and flexible organizations; allowing people to freely choose their work; codifying managerial rules; making supervision more transparent; ensuring fair evaluations; and pursuing other similar measures. Unlike the high-growth period in the past decades, which was driven by corporations as organizations, new development in our current era will be driven by individuals who work within companies.

With this in mind, the market must be released from old managerial practices in which pure business considerations took second place to concern for reading the government's administrative climate and remaining on an even par with other companies. Old-style emphasis on close, clubby human relationships, and attachment to traditions and habits that make it impossible to change business practices, are now far removed from the values of modernized civil society; therefore, bold efforts must be made to abandon these practices and make a fresh start.

The second step is to adopt managerial practices that emphasize capital efficiency. In a world of mega-competition, where everyone is looking for ways to improve efficiency, Japanese rationalization efforts are lagging far behind those of other countries in many economic fields. Efforts must be made to revive our competitiveness as quickly as possible in an open market economy by quickly converting to managerial policies that focus on capital efficiency. It is also necessary to establish firm corporate governance and to disclose information sufficiently and adequately.

Unless these steps are taken, Japanese companies have no future. We must recognize that corporate management must be reformed on a scale that equals, or indeed surpasses, the large reforms being pursued in political and administrative circles.

Conclusion

Japan has recently been criticized for doing "too little, too late." Although structural reforms are making slow progress, efforts to date have generated considerable impatience both in Japan and abroad in the course of repeated cycles of anticipation, disappointment, and revisions accompanied by continued stagnation. The government must make an unequivocal commitment to reform once and for all, and choose a bold new system on its own. To that end, it should make final decisions concerning structural reforms before the end of this year, and implement those decisions as quickly as possible. There can be no doubt that the Japanese people and the world at large desire Japanese politics and administrations to take decisive action.

When I assumed the post of chairman three years ago, I decided to formulate an "Action Program for the 21st Century." At the beginning of last year, we issued our "Manifest for a Market-Oriented Economy." In these and other ways, we have consistently advocated structural reforms because it is clear that no bright future is possible without them.

Only two and a half years remain before the 21st century begins on January 1, 2001. It is time to recommit ourselves to accomplishing the tasks that have been set before us at this important juncture in history, so that we may pass on a vibrant and healthy Japan to the generations who will live in the century to come. The year 1998 is really the crucial year. Speedy and bold action is most important to achieve reforms. Politicians, bureaucrats, and corporate executives are called upon to concentrate their strongest resolve and fullest effort on the realization of reform.