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**Social and Economic Vitality through Innovation**  
**—Building a New Nation on Self-reliance, Fairness, and Compassion—**  
Chairman's Address at the Fiscal 2006 Annual Meeting

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**Introduction: Sixtieth Anniversary**

On April 30, Keizai Doyukai celebrates the 60th anniversary of its founding. As the end of the traditional sexagenary cycle the 60th birthday is an important milestone, and Keizai Doyukai has good reason to celebrate it. I would like to take this occasion to express my deep regard and appreciation for all the officers and members who have put forth sound views grounded in foresight and conscience throughout the postwar era and built up Keizai Doyukai's reputation as a policy group.

Today the Japanese economy, emerging at last from its long years of tribulation, is firmly on track to achieve full recovery. Emblematic of this new climate is the condition of the stock market, which early this year recorded its highest price level since the start of the Koizumi administration, and the suspension of the emergency policy of easing the money supply to avert a possible crisis. Nonetheless, our optimism with regard to Japan's medium to long-term economic outlook must be tempered given the many risk factors we face, especially the monumental debt that our national and local governments carry and the rapid aging, declining fertility, and shrinking size of our population.

Today we stand on the brink of an era in which China, India, and other emerging economies are expected to play the leading role. For Japan to exist as an internationally competitive country with its own special appeal, whose people are able to enjoy an affluent and fulfilling lifestyle, we must not only follow through on the structural reforms to which we are already committed but

also tackle the difficult task of establishing a new engine of growth in a mature society with a declining population.

As I see it, our mission, as the backbone of Japan's economic society, is to find answers to this dilemma and implement them ourselves. With this in mind, even as we continue to develop our thinking on "the creation of new businesses" and "innovation," I would like to conclude my term as chairman by focusing this year's activities on the theme of "building a vital economy and society."

## **1. Building a Vital and Sustainable Society on Self-reliance, Fairness, and Compassion**

To build a truly vibrant economy, we must ensure that innovation continues in every area of society. The wellspring of social and economic vitality is continuous innovation, through which we forge new axes transcending existing frameworks and stimulate one change after another. On this assumption, I have promoted the goal of "making Japan a nation of innovation," stressing the need for reform in corporate management, the public sector, and individual attitudes.

However, while continuing to deepen our commitment to this sort of innovation, I believe it is also essential that we cultivate three basic values: Self-reliance, fairness, and compassion.

### **Self-reliance as the engine of innovation**

Let's begin with self-reliance. The ideas and behaviors that lead to innovation can occur only where a spirit of self-reliance prevails. It is when people feel the kind of personal responsibility that makes them think, "I have to do something about this myself," that they will take risks, resolve to make bold changes in the status quo, and start thinking "outside the box" to arrive at new and fresh ideas.

As corporate executives, we must pursue reforms resolutely and independently to build healthy corporations, not depend on national or local government for help because business conditions are harsh.

As I travel around the country, I have seen so many cases in which people have improved performance through innovation, however small in scale: local businesses that have captured a large share of some niche market, small suppliers that have succeeded in developing a new technology that the major companies had abandoned, and on and on. In each case these companies succeeded with their innovations precisely because they rose to the challenge in the spirit of self-reliance instead of waiting for government spending to generate public works projects or relying on regulations and industry practices to protect them.

By the same token, autonomy must also become the basis for regional administration in Japan. In fact, I would go so far as to say that without such autonomy, we can never hope to build a truly vital economy and society.

The system of highly centralized government that supported postwar Japan through economic reconstruction and the era of rapid economic growth is already showing clear signs of system fatigue. The policy goal of sustaining balanced development throughout the nation has become unrealistic in today's Japan, with its dwindling population. The Koizumi administration's "three-in-one reforms" for decentralization has made a certain amount of progress, but as long as political authority and fiscal resources remain largely in the hands of the central government, prefectures and local municipalities can never achieve true autonomy.

Especially given the fact that the population and economy of Japan's regions are comparable to those of a medium-sized country, it is imperative that we move quickly to shift to a decentralized system (specifically, a three-tiered system consisting of national, regional, and basic local government) in which regions decide their own policies, while preserving such basic functions of national government as diplomacy and security. To achieve the sort of development that preserves distinctive regional characteristics, we business

leaders need to be proactive in making recommendations based on our own experience.

### **Fairness above all**

Innovation begins with a rejection of past experience and conventional wisdom, and at times it can even lead to social upheaval. Yet such activity must never cross the line into behavior that violates either the letter or the spirit of society's laws and rules.

Each time a corporate scandal comes to light—including the recent Livedoor flap and the construction scandal over falsified data on earthquake resistance—I am reminded anew that a corporate executive must possess not only the leadership to encourage constant innovation but also a strong sense of ethics with respect for society's rules and fairness. Keeping in mind that the end purpose of the innovations we strive for is the betterment of society, we must value fairness above all else.

### **Building a caring society**

Next, while encouraging individual independence, I believe we must also strive to create a caring society, with a climate and mechanisms that offer people a second chance if they fail and lend adequate support to people with disabilities and others truly in need of assistance.

For example, where the current problem of unemployed young people is concerned, it's easy enough to simply wash one's hands of the matter, blaming young people for their lack of self-reliance. But if the appropriate support can give them a chance to make a fresh start and establish themselves in society, we shouldn't begrudge the labor required to provide that support.

In corporate management as well, businesses have a social responsibility not only to pursue economic profits but also to consider a range of societal needs from the perspective of concern for others.

## **2. How a Market-Oriented Economy Should Look**

Keizai Doyukai has advocated a market-based approach as one of the fundamental economic and social principles that we should embrace in the 21st century. This is because healthy competition in a free market gives rise to creative solutions and facilitates the efficient allocation of resources and the creation of value. The structural reforms that the Koizumi administration has undertaken can be considered part of the process of building an economic system driven by the market mechanism.

In recent years, however, as concerns have risen over the gap between rich and poor and the frequent outbreaks of corporate scandals, we have heard growing doubts concerning the “dark side” of a market-oriented economy and of the structural reforms that have been implemented. Yet arguments rejecting competition and structural reform have the potential to undermine the country’s vitality. Speaking from the perspective of those working for a vibrant economy and society, I would like to reaffirm what we mean by a market-oriented economy and explain to the world how it benefits society.

### **The market creates opportunities**

Looking back over economic history, we can see clearly how the development of a market economy has created greater opportunity for people. The development of financial and capital markets, for example, has given people without wealth of their own opportunities to launch new businesses providing they have a good idea and the will to pursue it.

With expanded opportunities for people to launch new enterprises, venture businesses spring up one after another and become an engine of economic development, which in turn leads to even more opportunities. Moreover, as Japan works to become a nation powered by science and technology, venture businesses have the potential to perform a major role translating research findings into useful products, creating jobs, and boosting our competitiveness. Innovation by venture businesses is expected to play a particularly important role in creating job opportunities in Japan’s services sector, which faces more challenges in terms of international competition than our manufacturing sector.

## **Mechanisms to maintain a healthy market**

Although market economy functions better than any other type of economy known to us, it is by no means a perfect system. This is why we need a variety of supplementary mechanisms to help the market stay healthy and function effectively.

As participants in the market, business leaders are expected to behave in a disciplined manner according to high ethical standards grounded in the principle of corporate social responsibility (CSR). Yet in an atmosphere of fierce market competition, one will invariably find a few executives who break the rules of the market in order to reap illicit profits.

In one sense, the market itself is endowed with a self-cleansing mechanism. As countless examples demonstrate, illicit activity will eventually come to an end as it comes under fierce criticism from consumers and shareholders. This self-cleansing mechanism takes time, however, and in the meantime, more and more damage could be done. This is why we need market rules and market monitoring. But we also need to enhance the deterrent effect of these mechanisms by strengthening penalties for infractions. The never-ending series of bid-rigging scandals that continue to come to light should convince anyone that current penalties for economic crimes of this nature are not a sufficient deterrent.

## **Mechanisms to offer a second chance**

Next, to maintain the vitality of the market, we need to create systems that allow people a second chance to succeed. Where there is competition, there will inevitably be winners and losers, and some wealth disparities will necessarily emerge. However, if the disparities that develop when people's efforts are rewarded become fixed, society is, to the contrary, sapped of its vitality.

With regard to assistance for entrepreneurs who need a second chance, we will continue to push for the introduction of an "angel tax credit" that makes it easier to raise private capital for business startups, rather than methods that rely on grants or unsecured loans from public institutions.

### **3. Educational Reform: Starting Point for National Renewal**

For Japan to achieve economic growth even with a declining population, each individual must become more productive, and this means we must nurture human resources with greater potential for productivity. Unfortunately, Japan's educational system remains oriented to cultivation of the kind of human resources Japan needed in an earlier era and has been unable to respond to the changes sweeping Japanese society. The key to nation building anywhere is reforming education to nurture the human resources that can lead the nation into the future. The Japanese, likewise, must move quickly to carry out educational reform oriented to the needs of a new era.

The people we need to build and sustain a vital economy and society must have four basic attributes: (1) ethical standards, (2) basic academic proficiency, (3) the ability to contribute to innovation (creative thinking, enthusiasm, etc.), and (4) specialized knowledge. With these requirements in mind, we need to redesign the elementary and secondary school curriculum and institute a mechanism for assessing educational outcomes. At the same time, higher education needs to focus not only on research but also on teaching, with the goal of fostering the human resources that can lead Japan into the future.

Further, as our society becomes ever more diverse, we must recognize that there is a limit to what teachers can do by themselves and start involving others in the classroom. Having a variety of adults, including business executives, visit the schools to teach children directly about careers and the workings of society will encourage our children to have clear goals and dreams for the future. With our rich fund of practical experience in society, we business leaders have an important role to play in nurturing the young people who will make up the next generation of adults.

### **Conclusion**

Above all, national renewal requires a clear political vision and the will to move steadily forward with concrete policies. As we approach the end of Prime Minister Koizumi's term this coming September, I would like to call on all

candidates to succeed him as president of the Liberal Democratic Party to draft and release their own manifestos prior to the LDP election to explain to the nation their concrete positions with regard to the key policy issues. Selection of the Democratic Party of Japan's president should likewise be preceded by the release of such documents.

I would like to conclude my remarks by quoting from the Keizai Doyukai mission statement: "As business leaders, we will do our utmost to help build a new Japan." After six decades, this declaration remains an apt expression of the passion and sense of mission that drives us. Cherishing this shared sentiment at all times, in every era, let us pool together our wisdom and initiative to make our mark on the next six decades.