

January 1, 2012

**Action Undaunted by the Fear of Risk
2012 New Year Message**

Yasuchika Hasegawa
Chairman, Keizai Doyukai

1. The Year for Action: Appreciating the Risk of Inaction

Japan has been visited by many severe tests and difficulties following the Great East Japan Earthquake. However, the hundreds of thousands who experienced, and continue to experience, unimaginable suffering as a result of the disaster are now moving forward one step at a time, even while the implementation of measures budgeted for recovery and reconstruction is still not necessarily proceeding on schedule. Deeply moved by the resilience of those who have been battered and displaced by the disaster, we commit ourselves to continuing our long-term support for the recovery and reconstruction effort and for speeding the rebirth of a fully revitalized Japan. And deeply inspired by their example, we redouble our determination to act boldly in the face of challenges, undaunted by the fear of risk.

Even before the earthquake, Japan was confronted by a series of unrelenting problems and challenges, such as the rapid decline in the birthrate, the accelerated aging of society, shrinking population, and the inexorable advance of the forces of globalization. Sadly, Japan has allowed precious time to slip by while failing to respond in any meaningful manner to these problems. In addition to all of these challenges, this year, Japan faces the new challenge of launching the post-earthquake process of reconstruction. To achieve any modicum of success, politicians, government administrators, and the private sector must collaborate closely and act with due speed to accomplish that which is expected of them, and 2012 must be made a year in which as many tangible and concrete results as possible are realized and held firmly in hand.

Taking on the challenge of numerous problems that remain unresolved in an uncertain and unpredictable environment no doubt entails many risks. However, we must be aware that given the dramatic paradigm shift that is taking place in the world today, the risks related to proactive responses to challenges are ultimately smaller and more manageable than the risks that await those who fail to take any action. Detailed prescriptions have already been devised and written for most of Japan's problems, so that the expression "the issue is under consideration" is nothing more than an excuse for further procrastination and inaction. We are living in an age of rapid and dynamic change that requires us to address issues agilely and flexibly; that is, we must first take the risk of deciding and acting with speed, and then take immediate corrective action if problems arise.

2. Top-Priority Policy Issues

Today, the capacity for quick response is most urgently required in the realm of politics and government administration. The crisis in Europe has focused attention on the possible proliferation of sovereign risk. Bearing in mind that the Japanese government is burdened with more outstanding debt than any other government, we cannot afford to pass this crisis off as somebody else's problem. As the first step, Japan must take decisive action during 2012 on the following major policy issues and prove the nation's problem-solving capacity to everyone in Japan and throughout the world.

The first policy target must be to accelerate the process of recovery and reconstruction from the earthquake. While things moved very slowly during the early months, necessary laws have now been enacted for the establishment of the Reconstruction Agency, special zones for reconstruction, and reconstruction grants. With the necessary administrative machinery firmly in place, 2012 will see the launch of full-fledged efforts toward reconstruction. However, the key to achieving true reconstruction lies in the willingness to rise above old conventions and the preparedness to grapple with the challenges before us with determination and without hesitation. The following stand out as essential requirements if we are to succeed. First, the mechanisms and systems now in place must be constantly reviewed and revised to ensure that creative responses devised and proposed by local governments and the private sector are not obstructed and frustrated. Second, local governments in the disaster zone should receive an infusion of human resources from both the public and private sectors, and bold steps should be taken toward delegating the

government's financial resources and administrative authority to them. While such measures may carry a certain degree of risk, the important thing is to be willing to respect the initiative and autonomy of local governments regarding local matters.

As the second policy target, swift action must be taken to implement a growth strategy. At the end of 2011, the government announced the Strategy for Rebirth of Japan, the main pillar of which is the realization of economic growth, including reconstruction from the earthquake. Last year, an important decision was made toward participating in the TPP negotiations. However, there are various other matters on which immediate action must be taken. Such actions should be launched without waiting for the detailed version of the Strategy which is expected to be ready by the middle of 2012. From a business perspective, it is critically important to act without delay, to verify the results of such action, and to make course adjustments where needed. In other words, we must be prepared to repeat the PDCA cycle* to obtain the results that we want.

The third policy target is the achievement of comprehensive reform of the social security and tax systems. Although it seems that discussions of this issue have become focused exclusively on raising the consumption tax rate, the original purpose of the reform must not be forgotten, which includes rectifying the inter- and intra-generational disparities in benefits and contributions (taxes and social security premiums) and building sustainable social security systems. While necessary revenues must be secured to maintain these systems, it is just as important to closely examine the expenditure side, as social security expenditures constitute the single largest item in government spending. In this process, steps should be taken toward reducing expenditures. However, any initiative toward expenditure reduction must be preceded by the presentation to the public of an easy-to-understand picture of a desirable level of national burden and the standards of benefits and contributions that Japan should be aiming to achieve. The combined reforms on the revenue and expenditure sides and the implementation of growth strategies have a vitally important role to play in the urgent task of setting this nation on a well-defined course toward fiscal health.

The fourth objective must be the determined implementation of political and administrative reform. The public will not agree to bear an increasingly heavy burden to pay for reconstruction and the maintenance of the social security system unless politicians and government administrators take the initiative in

* Repeating the four-step cycle of Plan-Do-Check-Act to make necessary improvements.

cutting spending on their own perquisites. With this in mind, we are making the following proposals. For politicians, we are proposing a reduction in the number of seats in the Diet and a cutback in the remuneration of Diet members. In the area of government administration, we call for administrative reforms that include significant changes in civil service systems. Furthermore, we call for the cancellation of the construction of housing for civil servants and support the sale of government-owned properties.

On the subject of political reform, it is absolutely essential that the forthcoming regular session of the Diet enact bills for reducing the Diet seats as well as for reforming the electoral system to ensure the equal value of votes so that the next lower house election can be held under a new system.

3. Taking Risks to Achieve Corporate Growth

As a principal locomotive force in economic growth, businesses are also being challenged to show determination and an unwavering commitment to action. While it is true that the competitive position of Japanese companies has been weakened by such factors as the appreciation of the yen, delays in trade liberalization, and electric power shortages, the ability of business leaders will be seriously called into question if we can do no better than to blame external factors. In order to overcome these constraints, companies must pursue new sources of growth by taking risks in such areas as reforming their organizations, launching new businesses, going after innovation, and penetrating emerging markets. It is by realizing solid gains in these ventures that companies will be able to contribute meaningfully to Japan's domestic economy and employment.

A few incidents occurred last year that shook the public's confidence in corporate governance in Japan. As business leaders, we must make these an object lesson for ourselves and renew our commitment to upholding high ethical standards at all times. At the same time, it is vitally important for us to reexamine the governance systems of our own companies and to make improvements wherever needed.

4. Formulating a Hope-Filled Vision for Japan 30 Years from Now

If we want our politicians, government administrators, and members of the private sector to take bold risks in their respective domains, Japan will need to

formulate a vision or a dream that will direct and guide these endeavors. In January 2011, Keizai Doyukai published “Vision of Japan 2020,” a document that presented a vision of where Japan should seek to be at the end of the decade and how specifically to achieve this vision.

Using “Vision of Japan 2020” as a milestone, we are now preparing to formulate a vision for 30 years from now—a vision focused on creating a new Japan that will have overcome the many difficulties set into motion by the Great East Japan Earthquake and will stand triumphant in an environment of rapid and dramatic change.

To accomplish this, a new project team will be formed during fiscal 2012 with a mission to study and develop a new vision within the span of one year. Keizai Doyukai will draw on its younger members, who are expected to play leadership roles in the future, to form this project team and will hold hearings with people in their 20s, 30s, and 40s to formulate a dynamic and hope-filled vision for Japan’s economy, industrial structure, business, employment, and mode of work 30 years from now when the fate of society will rest on the shoulders of today’s children.

###