KEIZAI DOYUKAI

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This Is the Year for Japan to Achieve Sustained Economic Growth: 2015 New Year Message

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As we greet the new year, the newly inaugurated third Abe administration is poised to press forward with Abenomics. If the government is to provide long-term stability with the support of a majority of the people, it must set priorities among the many issues it faces and take steady action to solve them.

In particular, 2015 will be a key year for mapping out the course necessary to achieve both private sector–led economic growth through regulatory and structural reforms and the fiscal health which we have a duty to future generations and the international community to restore.

1. Corporate Executives Renew Their Resolve to Realize Growth

Throughout my chairmanship, which began in 2011, Keizai Doyukai has consistently encouraged corporations to maintain their commitment to growth. During this time, Japan has made some headway toward exiting deflation and revitalizing its economy, thanks both to the effects of Abenomics under the second Abe administration and to the efforts of the corporate community. Now, in the year just beginning, we corporate leaders dedicate ourselves to practice innovative management with renewed resolve to set the economy firmly on track for sustained growth.

First, and most fundamentally, corporations must generate their own momentum toward growth by successfully meeting challenges such as the shrinking and aging of Japan’s population and the increasing intensity of international competition. To create this momentum, managements must dare to decisively improve the quality and quantity of jobs, expand investment in new projects, plant, and equipment, and, further, take innovation to a whole new level through initiatives that represent a complete break with the past.

Next, we must regain earning power. As management professionals, we corporate executives are responsible for our companies’ growth and future development. Listed companies must of course comply with the corporate governance code currently being formulated, which is expected to be implemented by June of this year, but mere compliance is not enough: companies must establish their own proactive governance designed to ensure that their earning power and growth potential continue to increase. By adopting proactive measures such as streamlining existing plant and equipment and concentrating investment on core assets, they must improve their capital efficiency and strive to lift their ROE, the global metric of management performance, into double digits.

2. Challenges That Companies Must Take On to Realize Growth

(1) Improve the Quality and Quantity of Jobs

To support growth, we will provide more and better jobs. Human resources are the very foundation of corporate competitiveness, and if we are to create high added value, labor expenses must be understood not as a cost but as an investment in human resources to boost competitiveness in the medium to long term. In order to hire, train, and retain high-caliber personnel, among other concerns it is essential that companies increase pay as business performance improves, convert fixed-term and part-time jobs to regular employment, develop employees' potential, and create a congenial work environment.

We will also act to improve labor productivity, in particular by rethinking Japan's corporate culture that favors long working hours and by introducing flexible ways of working.

In addition, we will continue to promote diversity by expanding job opportunities for women, older workers, and foreign nationals, among others. To encourage women's career advancement, companies need to further strengthen their support for job continuation and related measures in order to meet the numerical targets[1] in the revised Japan Revitalization Strategy 2014.

(2) Expand Investment in New Projects, Plant, and Equipment

To seize growth opportunities, we will expand investment in new projects and in plant and equipment, including replacement. New investment in Japan has been held in check over a long period by factors that include domestic markets shrinking as the population declines and the need to address the resulting overcapacity. The additional internal reserves achieved by efforts to improve corporate finances during this time should now be put to work as growth capital.

The possibilities include energy-saving conversion of factories and stores, utilizing data to strengthen cost and production control systems in the service and agricultural sectors, and greater investment in automation of production facilities. Also, in order to enter overseas growth markets or to strengthen their presence there, companies must continue to actively pursue mergers and acquisitions and to partner with venture firms both at home and abroad.

[1] The numerical targets include, for example, increasing leadership positions held by women to 30 percent in 2020.

(3) Take Innovation to a New Level

To create growth, we will foster the kind of transformative innovation that takes place when unlike meets unlike, that is, innovation that stems from the incorporation of diverse elements. If companies are to avoid a descent into price wars in domestic and overseas markets, they must be the first in their industry to develop and offer products and services that have high added value for their customers and society as a whole. Beyond such innovation at an internal or company level, we will take up the challenge of truly open innovation, which does away with all barriers between nationalities, industries, corporations, departments, or research fields and transcends differences in cultural background and values to draw on the collective wisdom of diverse human resources.

First, in partnerships among industry, academia, and government, the corporate community should intentionally create opportunities for open innovation by taking the lead in expanding personnel exchanges among companies, universities, and research institutes both in Japan and overseas.

The government, for its part, is discussing educational and governance reforms designed to strengthen, among others, the innovation-generating functions of universities. We in the corporate world will watch these developments closely and create new businesses that utilize the knowledge and technologies possessed by academia to the full.

3. Priority Tasks Facing the New Administration

To achieve sustained growth led by the private sector, it is important that the business community’s efforts be backed by policy support. I call on the new administration to approve the fiscal 2015 budget without delay and then steadily enact the measures in the revised Japan Revitalization Strategy 2014 into law. Also essential are a vision for community development and industrial recovery through wide-area collaboration in the regions affected by the March 2011 earthquake, and the early return to operation of nuclear power plants whose safety has been confirmed.

To restore fiscal soundness, the government should move rapidly to present concrete steps for returning the primary budget balance into the black by fiscal 2020, demonstrating through action its resolve to achieve both fiscal health and economic growth.

In terms of additional priorities, I call on the government to take serious action to reduce the number of Diet seats, rectify the unequal weighting of votes depending on where they are cast—a disparity which is in a state of unconstitutionality—in both Houses, and establish a policy-centered style of party politics.

(1) Speedily Implement Policies to Raise Expectations of Growth

While it will take time for the positive effects of structural reforms on the real economy to be expressed, policies certain to have an impact must be implemented without pause in order to raise expectations of growth.

The first of these is realizing optimal corporate taxation at an early date. We should step up pro forma (scale-based) standard taxation to stimulate the winnowing out of weak companies and to raise productivity. Further, as part of the effort to ensure an equal footing with other countries, the net operating loss (NOL) carry forward period should in fact be extended and the deduction increased, and the dividends received deduction should be expanded. Moreover, with regard to the effective corporate tax rate, which is to be cut by a total of 3.29 percentage points in fiscal 2015 and 2016, the government should promptly indicate its timetable for reducing the rate below 30 percent. Revenue neutrality is fundamental if the tax reforms are to be compatible with restoring fiscal soundness. We must secure revenue sources, overcoming the barrier between national and local taxes and the wall around each core tax.

The second is agreement on the substance of a Trans-Pacific Partnership (TPP) accord that capitalizes on the Asia-Pacific region’s vitality by liberalizing trade, investment, and services. I strongly hope that the government will display leadership in the talks and that agreement on the substance will be reached early in 2015. Further, as we pursue a number of negotiations simultaneously, including the Japan–European Union Economic Partnership Agreement and the Regional Comprehensive Economic Partnership (RCEP), progress in one set of talks will give an impetus to the others.

The third is promoting regulatory reform. In agriculture, employment, healthcare, long-term nursing care, and child care—all fields where “bedrock regulations” persist—bold reforms are called for to transform these into new growth sectors.

In agriculture, it is vital to boost competitiveness, since we are likely to see markets open further under the TPP agreement. Together with accelerating the integration and intensive use of agricultural land and encouraging new entrants to the sector, the government should remain resolute and continue to steadily promote efforts to reform agricultural cooperatives and especially the shift to a new system from the one centered on the Central Union of Agricultural Co-operatives.

In employment, with almost full employment on the way to realization due to the shrinking workforce and the economy’s underlying trend toward recovery, this is the ideal time for labor market reforms that will help refresh industries and corporations. To catalyze workforce relocation (without job losses) away from mature or stagnant industries and companies and into growth sectors, and to boost productivity, we should build conflict resolution systems that offer high predictability and we should redesign the employment system to reward performance rather than hours worked.

In the service industries, we should review the determinants of the minimum wage, and create an environment that encourages the concentration of operations and jobs on those companies that have the highest labor productivity and wage levels in their industry.

In healthcare and long-term care, advances are needed in the gathering and utilization of medical and health data. The government should move quickly to establish the necessary legislation and rules, including those concerning personal privacy, promote evidence-based policies for medicine and long-term care, and encourage the provision of healthcare services in which the insurers analyze itemized medical expenses and diagnostic information in order to provide the insurees with optimum care.

Further, high-impact regulatory reforms should initially be implemented in the National Strategic Special Zones, which offer the opportunity to make breakthroughs in these areas, and those that prove effective should then be extended horizontally to any local government that requests them. In the revitalization of regional areas, also, in order to foster regions that are independent and have their own unique character, those local entities that have a proactive stance toward regulatory reform should immediately be designated as special zones. In addition, some localities are actively providing an environment to facilitate startups, and policy support for such moves is also essential.

(2) Redesign the Integrated Social Security and Taxation Reforms to Achieve Fiscal Soundness

In the priority area of fiscal soundness, it is feared that the postponement of the consumption tax increase originally scheduled for this autumn will dampen market confidence in Japan’s public finances. The following spending and revenue reforms are called for to ensure robust confidence both overseas and at home.

First, in terms of fiscal soundness, which the government has pledged internationally to restore, it must present concrete steps for returning the primary budget balance into the black by fiscal 2020, including curbs or cuts to social security benefits and reforms of the three core taxes. In particular, since even the proposed 10 percent consumption tax will fall short of fully covering social security costs, consideration should be given to raising the rate still further and to the timing of such an increase. The government must also map out a course for putting the outstanding debt on a downward track from fiscal 2021 onward.

Second, the government must redesign the integrated social security and taxation reforms. We owe it to future generations to build a sustainable social security system. In order to lighten the burden on the working generations and correct intergenerational disparities, the government needs to take measures that will be painful, including benefit cuts and, in the case of the seniors, raising the ratio of medical and long-term care expenses borne by the patient. Further, by securing stable revenue sources and rethinking how the present structure allocates the cost burden among tax revenue, premiums, and copayments, the government must reform social security to create a system that can win a high level of public trust.

It should also be noted that common numbers for tax and social security purposes will be assigned this autumn and their use will commence in 2016. As this will make it possible to gain a detailed picture, on an individual basis, of pensions, medical costs, and other social security benefits plus income, the government also needs to fine-tune benefits and contributions in proportion to income, for seniors as well as those of working age.

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