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**Returning to the Fundamentals of the Reform  
- Leadership for the Promotion of Structural Reform -  
2001 New Year Statement**

Yotaro Kobayashi  
Chairman, Keizai Doyukai

**1. Where Japan Stands at the Start of the 21st Century**

We stand today at the start of the 21st century, a critical juncture in the flow of time. On one hand, we note the rapid gathering of clouds over the horizon of the long-buoyant U.S. economy. As for Japan, a strong sense of skepticism continues to prevail concerning the strength of the economy. The tendency to justify the postponement of fundamental reform and to prioritize economic stimulation is gaining greater dominance.

Self-sustained economic recovery cannot be achieved without structural adjustment, including administrative and fiscal reform and deregulation. This fact is all too obvious from the policy measures of the past decade and their consequences, as indicated by where the Japanese economy stands today. Japan continues to flip-flop between joy and despair with each announcement of the latest economic growth figures, and busies itself with a half-hearted combination of short-term policies of economic stimulation and a meager menu of structural reforms. So long as this continues, Japan will not be able to muster the economic dynamism needed to overcome the looming crisis of the aging of society coupled with declining birthrates.

We should stop waiting for the type of general improvement in economic conditions which occurred in past business cycles. The harsh reality of the Japanese economy is that unemployment rates remain high as our industries undergo a process of polarization. Not only must we face up to this reality but we must have the fortitude to appreciate this as a necessary step towards structural transformation. Certainly, while maximum use must be made of the revolutions in information technologies and distribution systems to push forward with the

transformation of industrial structure which will support the expansion of the growth sectors, bold measures must be taken to develop effective safety nets. This new year provides us with an excellent opportunity to remind us of the fundamentals of reform. We shall commit ourselves to bearing the pains and dislocations which accompany the erosion of vested interests and, with fresh resolve, we shall take the initiative in building a vigorous private-sector-led economy and society which is fully open to the global community. We believe that this constitutes a powerful first step towards the realization of the socio-economic system which we presented in our "21st Century Declaration."

## **2. Management Reform for Corporate Restructuring**

The first and foremost requirement for the restructuring of the Japanese economy is the reestablishment of corporate vitality. Following several years of concentrated effort on the disposal of excess liabilities and corporate restructuring, we are finally beginning to see signs of improvement in corporate profits. Our responsibility as corporate executives is to make certain that this trend is maintained and further expanded.

There are several absolute prerequisites for this. Productivity must be improved through a fundamental review and revamping of business processes, with a clear focus on the use of information technologies. Personnel practices and systems must be reformed to activate "human resource development," the source of the creation of new value, and to provide a high level of motivation to individuals. Specifically, capacity-building systems and opportunities must be created which individuals can utilize on their own initiative to develop new capabilities. Likewise, new personnel evaluation and management systems which view the internal and external labor markets as one must be developed with greater speed. In order to develop the external labor-market infrastructures to support such corporate initiatives, further deregulation must be promoted in personnel-placement and related business fields.

On the other hand, the problem of corporate scandals and irregularities clearly points to the need for greater transparency and accountability in corporate management. As we turn a critical eye on ourselves, we must involve ourselves in earnest efforts, both as corporations and as corporate executives, to improve the quality of management which provides the very foundation for corporate management. As corporate executives, we must renew our awareness of the

fact that our companies are in a position to exercise a tremendous impact on our customers, on the markets, and on society itself. Based on this awareness, we must work to strengthen the trust of society in the corporate sector. This will require us to return to the starting point of corporate management and to go through with a series of corporate reforms involving the implementation of proper corporate disclosure and the clear definition of our values and criteria. For this purpose, we must endeavor to raise our standards of corporate ethics and to establish good corporate governance.

### **3. Farewell to Public-Spending-Dependent Economy and Commitment to Administrative and Fiscal Reform**

What must Japan do to revitalize its corporate sector and to reinforce the process of self-sustained economic recovery? Administrative and fiscal reforms are absolutely essential requirements for this. Without reform, Japan cannot succeed in making the transition from a public-spending-dependent economy to a private-sector-led economy.

Japan's already serious fiscal conditions continue to deteriorate. We can no longer afford to view fiscal consolidation as a future goal. Rather, fiscal consolidation now represents, even as short-term objective, a top priority in establishing a path to the speedy resolution of fiscal problem. The implementation of fiscal structural reform must be preceded by adequate discussion to create a public consensus and a common awareness. For this purpose, we strongly urge the Prime Minister to make the political decision and a firm commitment to launching the debate on fiscal consolidation during this new year. It is our hope that the Prime Minister's decision will lead to Japan's full political commitment to reform.

For this purpose, the Cabinet Office, the other newly reorganized government ministries and agencies, and the newly established Council on Economic and Financial Policy must immediately embark upon the task of defining a long-term vision for the entire fiscal system - including public works investment, social security, and local finance. Moreover, they must formulate a program for fiscal structural reform indicating how the nation is to realize this vision. The goal should be to complete these tasks before the end of 2001.

It should be noted that systemic reform, including the establishment of a highly transparent and objective budget process in line with policy evaluation and the

improvement of government accounting systems, can be implemented through political leadership regardless of current economic conditions. More than anything else, it is important to promote these "qualitative" reforms so that a surgical knife can be administered to the current system of ministerial budget allocations. This system has become totally rigidified, is geared to serving specific interests, and is inextricably linked to the problem of growing fiscal deficits. Unless the government mounts such efforts, it will fail to gain the support and confidence of the public in tax hikes involving tangible pain.

Recently, the government and ruling parties have been involved in discussions of specific reform measures pertaining to government accounting systems, special public corporations, and public works investment. These discussions are presenting the public with a clear view of where the major problems lie in Japan's administrative and fiscal systems. It will be highly important to link the results of these discussions to the fiscal 2002 budget by clearly delineating the specific policies and principles applied to the budget process.

#### **4. Leadership by Politicians and Corporate Executives**

Japan must rid itself of gradualism in favor of accelerated structural reform. For this purpose, it is essential that both politicians and corporate executives develop a clear awareness of the harsh realities before the nation. Based on this awareness, they must commit themselves to exercising strong leadership. Particularly in the case of corporate executives, we must muster special determination not to be thrown off track by any temporary business downturn which may be caused by structural reform. We must retain our faith in the efficacy of reform and stand at the forefront of transformation. Such action will earn us the trust and confidence of the public, and it is our earnest hope that such action will lend added momentum to the vital process of structural reform.