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The Moment of Truth for Reform
Chairman's Address for the 2001 Annual Meeting

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From Vision to Action

Japan-and in particular the Japanese economy-is now facing the moment of truth in regard to its reform efforts, and I have been asked to stay on as chairman of Keizai Doyukai during this critical period. I intend to focus all my energy on this heavy responsibility, and I look forward to receiving the continued support and cooperation of the members. Most importantly, I hope that all members will take the initiative and participate actively in our undertakings.

After extensive discussion about our future vision for Japan as well as the roles and responsibilities of corporate executives and corporations and Keizai Doyukai's mission for the future, we unveiled our 21st Century Declaration at the end of last year. The Declaration contains the following statement: "As corporate executives we have the duty to participate actively in the creation of a new Japan while bearing in mind that our enterprises have a social presence that exerts a tremendous and ever-increasing impact on the values and lifestyles of the people." Looking toward the next decade, the Declaration encourages companies to focus on the development of a market that is capable of valuing not only the maximizing of "economic aspects" but also "social aspects" and "human aspects" as well. Indeed, it calls on us to take the initiative in promoting "the evolution of the market."

This fiscal year we will reach a crucial period in the implementation of reforms, and our activities must be founded on the vision sketched out in the 21st Century Declaration. We must chart a concrete course of action that allows us to realize our mission to the greatest possible extent.

Program for Action in Fiscal 2001

Due to the amalgamation of Keidanren and Nikkeiren, Japan's business and economic associations have been undergoing a process of reorganization. However, Keizai Doyukai plans to more clearly define its uniqueness and its particular position within the business community. We shall not be bound by the traditional framework represented by the four leading economic associations. Instead, we intend to play a leading role in the creation of a new Japan by speaking out and taking action in such vital areas as politics, economics, foreign policy, and education.

One of our most urgent tasks this fiscal year is to prepare a package of concrete proposals concerning economic structural reform. Simultaneously, we must keep a vigilant eye on the stance the politicians take in regard to the implementation of structural reform.

Next, we shall work toward the realization of the 21st Century Declaration. To that end, we must flesh out the concept of the "evolution of the market" in terms of both theory and practice. If we are to facilitate the development of a market capable of valuing economic, social, and human aspects, we must immediately begin to examine how these concepts can be given concrete form in the business environment and how related ideas can be used as management tools. In order to spur the creation of a new Japan, Keizai Doyukai-through a concrete course of action-plans to participate actively in the reform of the political system, human resources development, educational reform, and other vital areas. At the same time, we intend to take part in thorough discussions on difficult issues such as postal savings system reform and Japan's Constitution.

Administrative and fiscal reforms are of particular urgency, and we plan to pursue joint projects involving other local Keizai Doyukais that will lead to the launch of a national council for studying local administrative and fiscal systems (the All-Japan Keizai Doyukai Council to Promote Local Administrative and Fiscal System Reform). We will also draw up specific recommendations from the perspective of the private sector aimed at creating new local administrative and fiscal systems.

As all of the above makes clear, the fiscal year before us is extremely important, and it holds many challenges for Keizai Doyukai. It will also be a year of great significance for Japan, one that must be made a turning point in our history-the

year in which we implemented major structural reforms and took the first steps toward the building of a new nation.

I would now like to share with you my basic thinking on the implementation and realization of structural reform.

What Corporate Executives and Corporations Must Do to Help Realize Structural Reform

Allow me to emphasize again that we have arrived at the moment of truth. And that moment requires us to muster the courage needed to rise above the pain and discomfort that comes with change and to move forward with the necessary structural reform.

Japan has relied too heavily on pump-priming measures to stimulate the economy. We need to realize that the impact of well over ¥100 trillion in fiscal stimulus since the collapse of the bubble economy has been temporary at best. Moreover, we must face the humbling fact that all this public spending has failed to create a strong and reliable foundation for economic rebirth. Now is the time for us to put an end to the cycle of pessimism and the postponement of structural reform, which for a decade has been justified on the grounds that "economic recovery must come first."

Let us take a page from the United States and its response to the serious economic stagnation that followed in the wake of the first oil crisis. Faced with an uncertain future, a sense of crisis bordering on fear enveloped the American people and their political leaders. But the crisis served as a springboard for government to dramatically change the administrative framework and for corporations to implement radical corporate restructuring, including massive reorganization and the shedding of unprofitable businesses. That bold course of action allowed the U.S. economy to escape the perils of stagnation.

Structural reform signifies the reallocation of human resources, goods, and capital to higher-growth areas. In this sense, the implementation of structural reform falls squarely in the province of the corporate sector. However, a survey of conditions in Japan shows that only a very few companies have been able to liberate themselves from the negative legacy of the past and to make a fresh start. It must be said that most companies continue to hesitate when it comes to taking the decisive action that is needed to rid themselves of excess liabilities and excess labor.

Therefore, in order to promote structural reform, the first thing we need to do as corporate executives is to recognize that structural reform is in effect a personal challenge. With great determination and an unflinching sense of responsibility, we must move toward creating new economic value. It is essential that we become fully engaged in the process of re-engineering in order to shift our capital and human resources to more productive areas.

There is no doubt that the reform and rebirth of the corporate sector will inevitably be accompanied by pain and discomfort. Failed companies will disappear from the scene, and unemployment is likely to increase. And because of that, the next several years will be difficult. But will we allow our dread of such pain to make us hesitate and stop? Or will we bite the bullet and move forward, seeing that pain for what it is—a necessary part of the path of reform, which will end in the rebirth of the Japanese economy? The answers to those questions will be found in the courage and determination that each of us is able to muster. And if we cannot find that courage and determination in ourselves, then the only responsible move will be to step aside and pass the baton of leadership to the next generation.

The Sense of Mission among Politicians and Their Ability to Implement Structural Reform

Next, I would like to comment on the role of politics in promoting structural reform. A new prime minister is being chosen today, and we would strongly urge this new leader to exercise dynamic leadership by adopting a heightened sense of mission and an indomitable resolve in regard to structural reform.

To begin with, the new administration must say goodbye to the "moratorium policy" of procrastination and the repeated postponement of exposing the crisis. Our politicians must send out a loud and clear message—to both the people of Japan and the international community—that we are pursuing policies focused on structural reform for the future.

Our political leaders must then present a concrete vision for the future of the Japanese economy. They must, in effect, make the following statement to the nation, knowing full well that the path they are suggesting may be unpopular with the people: "Negative economic growth may be temporarily unavoidable as the final disposal of non-performing loans proceeds and structural reform is implemented that will result in the rebirth of the corporate sector. But after that process has been completed, Japan can look forward confidently to positive

growth. Ultimately, this will benefit the nation." Our politicians must not waver in this. They need to look the public straight in the eye as they ask everyone to bear the pain that is a temporary, albeit necessary, part of dealing with the crisis at hand.

Japan needs political leadership that will squarely face the difficult situation in which the country finds itself and clear a path toward a brighter future by overcoming the current obstacles.

In addition, in order to win public support and understanding for the difficult policy choices ahead, it is essential that public confidence in the political system be restored. To achieve that, our political parties and our politicians will have to develop a fuller awareness of the functions that they need to perform in an effective system of parliamentary democracy. The present pattern of catering to vocal pockets of vested interest must be changed. Politics must be transformed so that it more closely mirrors the will of the people. The political process must be reoriented toward real policy choices and the benefit of the nation. There are two matters of particular importance in this regard. In order to correctly and fairly gauge the will of the people in each electoral district, the "disparity in the weight of each vote" must be rectified. Likewise, competitive principles must be brought into play in the policy-formation process.

We must strive to create a sound and healthy environment for political debate and confrontation by urging political parties and politicians to make their policies known to all so that they might be fully and fairly evaluated by the electorate. Should it become clear that the government or the current framework of existing parties is unable to meet the expectations of the people, the system should have the ability to undergo a fundamental policy transformation through an electoral process that produces a change in the administration or a reorganization of political powers.

Finally, there is one thing that we must do to create a political system that fulfills the fundamental functions expected of such a system. That is, we must rid ourselves of the habit of maintaining a certain distance from the world of politics. It is extremely important for us as corporate executives to cultivate a sense of ownership in regard to political matters and a readiness to participate actively in the political process. In other words, we must be prepared to offer concrete policy choices at every turn, whenever they are needed. Not only that, we must be ready to present our policy positions fully and clearly through electoral action

and personal contributions, so that we can exercise an influence over the election of our future leaders.

From this perspective, the House of Councilors elections to be held this summer will serve as a crucial test of the resolve of our politicians and of the people. It will also be a moment of truth for Keizai Doyukai as we move to act on our standing commitment to change the disparity that currently exists in the weight of each vote.

A Forward-Looking Package of Structural Reform

The next question I would like to pose is this: What can be done to enhance the effectiveness of structural reform?

A number of different structural reform plans have been proposed in the past, but there is very little to show for these efforts. One of the important reasons for this failure is that discussions of reform have been compartmentalized along such lines as finance, fiscal balance, and social security. Consequently, no clear overall policy priorities have been set. This in turn has hampered the implementation of reform. Moreover, discussions regarding the specifics of the safety-net mechanisms for reducing the friction caused by reform never matured. At the same time, free rein was given to criticisms focusing on the negative aspects of structural reform, and it cannot be overlooked that negative attitudes toward reform bolstered the posture of delay and postponement.

Given this background, what must be done to enhance the effectiveness of structural reform? First and foremost, a comprehensive policy package must be formulated that encompasses all areas of reform. It is essential to follow this up with a clearly defined process for implementation.

We must begin with some fundamental principles concerning the policy package. Structural reform implies the contraction of old economic structures and the expansion of the new one. Seen from this perspective, we need two major sets of policies for the smooth implementation of structural reform.

The first set involves policies for destroying the old economic structures and creating safety nets for reducing the economic and social friction caused by this destruction. Policies for destroying the old must include urgent measures for raising up the infrastructure that must be in place for the final resolution of the problem of non-performing loans. On the reverse side, industrial policies must be launched to expedite fundamental reform in low-productivity sectors.

The process of revitalizing the corporate sector will undoubtedly lead to the demise of many enterprises. Therefore, reform must go hand in hand with measures designed to allay the fears and anxieties of the public. In this context, it will be extremely important to pursue policies geared toward the creation of effective safety nets in the labor market.

Some of these measures will necessarily be passive ones. For example, to provide more extensive support to the unemployed, the period of payment of unemployment insurance should be extended. However, even more important are policies to promote the shift to new employment, particularly proactive policies supporting the smooth conversion of individual capabilities. Several specific lines of action should be pursued in this area. For instance, the community college system in the United States should be used as a model in developing locally focused job-training programs. Similarly, employment and personnel placement businesses should be further deregulated to bolster the employment-matching functions of the labor market.

The second set of policies pertains to the development of the infrastructure needed for promoting the expansion of growth industries and releasing the dynamism of private enterprises. Important initiatives in this area include the following: the fundamental revision of securities-related taxes and the gradual contraction of government financial institutions for expansion of direct-financing markets; deregulation and tax revisions geared toward the activities of angels for promotion of entrepreneurship; the introduction of portable pension systems to reduce obstacles to labor movement among enterprises; the creation of new demand through urban rebirth and redevelopment; and promotion of the outsourcing of government functions to the private sector.

Appropriate measures must also be taken to reduce the public's sense of future uncertainty. In this context, a revamping of the social security system, including current pension and health insurance programs, cannot be avoided. While the government is in the habit of using the prolonged economic slowdown and the declining birthrate and the aging of society as an excuse, it has failed to launch fundamental reform of the social security system. Instead, it has occupied itself with tinkering with the system.

The government must bear a heavy responsibility for underwriting overly optimistic system designs and later failing to deliver on the promised welfare policies. Yet the fact remains that postponement of reform can only add to the eventual burden of the public. Thus, there is an immediate need to mark out a

concrete path to social-securities reform, including steps to rectify benefit levels, to streamline government pension programs, and to stimulate the development of private pension systems.

Second, it must be understood that in regard to the process of implementing structural reform, the individual policy components of the comprehensive package have mutually complementary purposes and effects. In light of this fact, the basic approach must feature simultaneous implementation. In other words, it is vitally important to avoid repeating the past mistake of postponing painful and difficult reforms while only implementing fiscal stimuli that should have been used as a support for the process of reform.

Focusing the "Aspirations" of All Members and Reforming the Organization of Keizai Doyukai

Thus, the Japanese economy has arrived at the moment of truth in its pursuit of structural adjustment. Given this fact, if Keizai Doyukai is to remain a pioneering institution in the 21st century, it will be very important for us to take effective measures geared toward energizing our organization, so that we can continue to fulfill the roles expected of us by society and our members.

As mentioned earlier in the discussion of the Keizai Doyukai plan, in order to focus the "aspirations" of all members and to create an environment in which all can participate with a heightened level of vitality, we must now take the bold steps necessary to reform the organization of Keizai Doyukai. While working to reorganize the secretariat, we must also develop a system that provides ample space for our members, a system that will lead the next generation to energetically pursue a broad range of initiatives. Once again, I ask for your cooperation.

Thank you.