

Reiwa Collaborative Capitalism Model —Building a New Economy and Society—

2024 New Year Message

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Globally, geopolitical tensions continue with the prolongation of the Russian invasion of Ukraine and the confrontation between Israel and the armed organization Hamas in the Middle East. At present, peace can no longer be taken for granted as a premise for people's lives and economic activities. Meanwhile, amid the retreat of democracy and the spread of authoritarianism, major elections are scheduled in many countries and regions in 2024. This will truly be a year when the ability to eliminate the sense of resignation and despair about democracy will be questioned.

In Japan, as cost-push inflation from the impact of geopolitical risk has emerged, real wages have declined year on year for 19 consecutive months, causing people to be frugal in their daily lives. Yet, there was positive change in 2023: leading companies gave out the highest level of wage hikes in 30 years. There were also supply constraints caused by the labor shortage, suggesting that the supply-demand gap was nearly eliminated.

Given these conditions, 2024 is truly a turning point of the times. For Japan, we want this to be the starting year to put forth a new vision, break away from the economic and social model continued through the Showa (1926–89) and Heisei (1989–2019) eras, and build a new private-sector-driven economy and society without excessive dependence on government expenditures.

The direction Japan should aim for

The new economic and social vision that Japan should aim for is the “collaborative capitalism” set forth by Keizai Doyukai—more specifically, the realization of well-being achieving both private-sector-driven growth and collaboration.

Whereas growth is necessary as a major premise for realizing collaborative capitalism, the goal is not the pursuit of economic growth alone. Companies must work together with the social sector to address social issues and thereby create new businesses and innovation with a view to strengthening resilience and boosting corporate value. To create a win-win society where anyone can rise again after failing, companies and the

social sector must collaborate and manifest their animal spirits.¹

To realize well-being in Japan where the population is declining, we must make society a place in which not only the working generation but also the senior generation can work with vigor and peace of mind throughout their lives. In an era of people living to be 100 years old, it is crucial to ensure healthy longevity and provide all generations with opportunities for career design and reskilling so that more people can work throughout their lifetimes without being bound by the definition of the working-age population (15–64 years old). Also, to increase the range of career choices, young people should be encouraged to play active roles both in Japan and abroad.

Toward structural wage hikes, consideration must be given to a new framework that adjusts wage hike levels in line with changes in the consumer price index. This should also be the year where a road map is developed to raise the national average minimum wage, which is still at a low level internationally, to ¥2,000 as soon as possible.

1. Breaking away from the Showa/Heisei model and creating the Reiwa collaborative capitalism model

The Showa/Heisei model refers to the form of the economy and society that comprised the systems established under the population increase and high economic growth of the Showa era and the policies during the “lost 30 years” in the Heisei era.

The social security system, which symbolizes the Showa model, has adopted a patchwork of makeshift policies in response to the declining birthrate and aging of society, diversification of work styles, and other changes. Nevertheless, the Japanese people have the feeling that the present system is out of synch with the times.

The bold monetary easing and large-scale budgets were the Heisei model economic policy attempt to revitalize the economy under deflationary conditions where the private sector did not take risks. However, growth strategies were not sufficiently implemented and regulations not matching the era were preserved without breaking down the bedrock of vested interests. As a result, deflation prolonged, the animal spirits of companies declined, and Japan fell to a record-low 35th place in the IMD World Competitiveness Ranking 2023.

Furthermore, the problems of corporate governance and of business and human rights, among other issues, have become clear. These are thought to emerge in the dynamics

¹ The spirit of challenge to put forth one’s own *raison d’être* and purpose in society and, by pursuing these, to work to achieve social benefits.

where, despite new norms and ethics being demanded by society, corporate executives and frontline workers who cannot keep up with those changes are trying to drag on the Showa/Heisei model. However, the decline of Japan cannot be stopped without breaking away from the Showa/Heisei model.

In the midst of great changes in the trends of the times, 2024 should be the year to fire up the engine to growth in a positive and forward-looking manner. We must break away from the Showa/Heisei model and step forward to the creation of the Reiwa (the current era that began in 2019) collaborative capitalism model through bold structural reform led by the private sector.

The Reiwa collaborative capitalism model comprises systems and policies that drastically transform the economy and society to realize well-being achieving both growth and collaboration even amid heightening geopolitical risk and the further progress of the declining birthrate and aging of society. To revive Japan’s competitiveness and achieve growth, the dynamism of the economy must be regained. To that end, it is necessary to eliminate the fear of job loss through greater labor mobility, realize an economy with positive interest rates, and renew existing industries and businesses.

A model that does not put off the pains of reforms required to revive economic dynamism and provides measures to overcome them is exactly what will pioneer a new Japan. The table below presents some examples.

	Showa/Heisei model	Reiwa collaborative capitalism model
Social security	<ul style="list-style-type: none"> • System where contributions paid by the working generation support the elderly generation 	<ul style="list-style-type: none"> • System supported by all generations in accordance with their burden-bearing capacity that takes financial income and assets also into account
Employment and labor	<ul style="list-style-type: none"> • Working-age population (15–64 years old) • Mass hiring of graduates, seniority-based wages, and lifelong employment • Annual spring wage negotiations 	<ul style="list-style-type: none"> • Secure a labor force with the working-age population and the population aged 65 and older who wish to work throughout their lifetimes (through age 75) • Expand mid-career hiring, introduce job-based pay, and

		<p>increase employment mobility</p> <ul style="list-style-type: none"> • Support through career design and workforce reskilling • Structural wage hikes: adjust wage hike levels based on the consumer price index and lift the minimum wage
Macroeconomic policy	<ul style="list-style-type: none"> • Government-regulated economy through battle with deflation during the Heisei era (large-scale monetary easing, bloated budgets to cover the supply-demand gap, and growth strategies) 	<ul style="list-style-type: none"> • Private-sector-driven economy • Raise productivity to overcome the labor shortage • Increase real wages and expand disposable income • Economy with positive interest rates • Wise spending
Corporate management	<ul style="list-style-type: none"> • “Japanese-style” management in the Showa high-economic-growth period, and management that does not take risks under the Heisei deflation 	<ul style="list-style-type: none"> • Boost corporate resilience through the trust of society • Advance diversity, equity, and inclusion to foster innovation

Keizai Doyukai proposes breaking away from the Showa/Heisei model and pursuing innovative reforms to create the Reiwa collaborative capitalism model led by the private sector, and works toward its realization and implementation.

2. What companies must address to create the Reiwa collaborative capitalism model

First are human capital investment and work-style reforms. To avert stagflation, structural wage hikes must be implemented from large companies through to small and medium enterprises to achieve an increase in real wages. In particular, wage hikes in the service industry, which accounts for a large percentage of the working population in all industries and has many small and medium enterprises, are indispensable for creating a virtuous economic cycle.

As labor mobility advances along with the growing labor shortage, companies must introduce workforce reskilling and job-based pay while pursuing work-style reforms that promote the active participation of diverse personnel to secure superior personnel and boost their engagement. Work-style reforms are also essential as corporate countermeasures to the declining birthrate. To support child-rearing at households where both parents work and share childcare responsibilities, companies must create an environment conducive to employees using shortened working hours, paternity leave, and other programs. Through such initiatives, companies should lead efforts to eliminate the stereotypes of gender roles that are still entrenched in society.

Second are the expansion of domestic and overseas investment and the fostering of innovation. To completely break away from the deflationary mindset, companies must promote the use of generative artificial intelligence (AI) by all generations and other digital transformation initiatives while expanding domestic investment in energy, health care, and other new frontiers. At the same time, global management must be further strengthened to increase returns on direct investment, and benefit from the vitality of growth markets, overseas.

Fostering innovation requires the promotion of open innovation among large companies, startups, and universities, as well as the creation of an ecosystem where more startups can continue to grow after the initial public offering. In parallel, efforts need to be made to encourage companies to pursue mergers and acquisitions while reviewing and restructuring business portfolios. It is also necessary to foster an organizational culture where diverse personnel can play active roles regardless of gender identity and sexual orientation (LGBTQ+), ethnicity, age, disability, and other attributes.

Third is the participation in collaboration with the social sector. To resolve social issues, the various resources that companies own must be provided to assist the social sector. Discovering business seeds and latent needs through such collaboration activities and gaining approval and trust from society is thought to lead to boosting corporate value over the long term.

3. Priority policy issues to create the Reiwa collaborative capitalism model

The government should give the highest priority to pursuing policies that will form the axis of a new economy and society.

Firstly, the approach to social security benefits and burdens must adapt to the simultaneous advances in population decrease, the declining birthrate and aging of society, and healthy longevity, as well as to the diversification of workers and work styles. To make Japan's social security system sustainable, it is necessary to promptly shift from the Showa model whereby the working-age generation supports the elderly generation to a new model supported equitably by all generations in accordance with their ability to bear burdens that takes financial income and assets also into account.

Meanwhile, to secure funding for measures to address the declining birthrate, the government must first implement a thorough reform of expenditures in the medical services and long-term care fields. Under no circumstances should it increase the social insurance premium burden because that would decrease the disposable income of the child-rearing generation. Also, the effects of child-related policies should be verified to focus budget allocation on measures that are truly effective.

In 2024, the use of data should be made a catalyst. The government must fully utilize data to accelerate evidence-based policymaking in social security and other fields and to support research and initiatives that contribute to well-being such as a decline in the dementia incidence rate.

Whereas social security reform is essential for fiscal soundness, a more fundamental issue is the reform of the governing structure. We urge the government to begin a full-scale debate on how to strengthen the functions of administering the governance of the state.

Secondly, energy, regulatory reform, and other policies essential for sustainable growth should be implemented with greater speed and scale.

Japan needs an energy policy that ensures supply meeting the rising demand driven by the digital economy and helps achieve carbon neutrality. As a realistic solution to this, while making it a basic policy to shift primary energy to nonfossil energy as much as possible, the nation should utilize nuclear reactors with safety assurances until a better option comes along. Toward early resumption of operation, when a nuclear reactor has passed the Nuclear Regulation Authority's safety screening, the government needs to provide the people with fact-based explanations about the importance of the reactor resuming operation and its contributions to the local communities. Also, given the importance of combining nuclear power with renewables to achieving both decarbonization and a prosperous society, the introduction of renewable energy should be further expanded.

This year, we hope to witness swift and large advancement in the reform of

regulations that have hindered economic growth. In particular, to stimulate consumer spending with the revival of inbound tourism as a tailwind, Article 78 of the Road Transportation Act should be amended, and a new ride-sharing law introduced, as soon as possible.

Thirdly, monetary policy should be moderately shifted toward an economy with positive interest rates. Considering the impact of the weakening yen on the national economy, an exchange rate that matches the actual conditions of the Japanese economy is desirable. To that end, it is vital to present the message of monetary normalization and the path to achieving it, giving consideration to prices and the wage increase ratio in annual spring wage negotiations. Moreover, the government should powerfully advance growth strategy under the leadership of the prime minister to limit the impact on the real economy.

4. Creation and implementation of the Reiwa collaborative capitalism model by Keizai Doyukai

Given that breaking away from the Showa/Heisei model and creating the Reiwa collaborative capitalism model entails some choices that involve trade-offs, Keizai Doyukai must first clearly assert its unwavering intentions. Having discussions and dialogue on policy issues with all the stakeholders in society is important. However, the direction that Japan should take cannot be determined by simply holding wide-ranging discussions without asserting one's own opinion out of fear over creating friction. The role of Keizai Doyukai is to deepen fact-based discussions on substantive issues, propose realistic and highly effective solutions, and repeatedly explain these to gain society's approval.

To enhance Japan's presence in the international community, it is also crucial to communicate what corporate executives and companies can do to address climate change and other global problems as well as issues for the creation of a new world order such as strengthening relations with the Global South and assisting the reconstruction of Ukraine.

To actively engage in more substantive policy debates, it is necessary for diverse corporate executives to gather together and share wide-ranging knowledge based not only on policy and management but also on the liberal arts. Furthermore, as AI and other technologies advance at an exponential rate, it is increasingly important for business leaders to hold in-depth discussions and dialogue to utilize these technologies with an

ethical axis based on history and philosophy. To strengthen such learning, Keizai Doyukai will work on the Management Talent Development Academy project in full swing in 2024.

In 2023, Keizai Doyukai formed a partnership with the Japan Association of New Public and the Impact Startup Association to realize collaborative capitalism. In 2024, we will take these partnerships to the next level. Specifically, we will organize multiple initiatives to resolve social issues through collaboration between companies and the social sector with a view to boosting the effectiveness of the tripartite collaboration.

In addition, to encourage more companies to help revitalize local economies and resolve social issues, we will propose and urge the reform of the corporate version of the hometown tax program to make it a permanent and easier-to-use system.