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Efficiency and Trust: Creating a Market-Oriented Economy in Japan

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Introduction: Now Is the Time to Change to a Market-Oriented Economic System

Today, on the threshold of the twenty-first century, Japan faces an urgent need to transform its economic system. Five decades after the end of the war, the Japanese economy has reached a state of maturity, as the period of catching up has given way to front-runner status. Further, amid rapid globalization and the rapidly increasing importance of information--two major trends which characterize the new era--we have entered an age of mega-competition. Against this background, Japan retains a postwar economic system whose essential features date back to the war years, as the term "the 1940 structure" indicates. These features include close ties between government and business, a system of intercorporate relationships involving main banks and *keiretsu*, and a system of personnel management centered on long-term stable employment. Today, however, the positive aspects of this structure are no longer fully functional, while its negative aspects have become obstacles to economic activity.

Yet, at the same time, Japan is an economic power which accounts for 18 percent of world GDP, and in light of ongoing globalization it is no longer sufficient to think about the allocation of its resources in a purely domestic context. If Japan is to continue to prosper and contribute to world economic growth, it must restructure its economy as an open and efficient system able to respond to global trends.

The postwar economic system has been characterized by policies of protecting and fostering certain industries under the leadership of the bureaucracy. These policies were an attempt to control resource allocation by artificial means instead of entrusting it to the market. As long as Japan was "catching up" this control functioned to good effect, but today it acts as a drag on the economy, causing

inefficiency and encouraging the maintenance of Japan's high-cost structure. If this situation is allowed to continue, Japan will undergo further hollowing-out not only of corporate activity but also of human resources and capital, and will lose its ability to attract investment on the international market.

Although the majority of Japanese consider themselves to be middle-class, they do not have the genuine sense of affluence that the size of the economy would lead one to expect. Moreover, unless the market is activated, a loss of national vitality may result in the future as the rapid aging of the population places a growing fiscal burden on the public.

Now is the time for reform in order to achieve an affluent and attractive society, one which many people will wish to choose as their sphere of activity. The key to these reforms is to place the market at the center, and thus realize a more efficient allocation of resources while building a national economy which can be trusted.

Chapter 1. The Basic Perception of the Market

a. Trends in the International Community

Since the late 1970s, government spending in the developed nations has been in deficit. Moreover, under existing institutions and taxation systems these budget deficits will inevitably expand as these nations populations age. Each government has therefore begun to take steps to curb its fiscal deficit. Against this background, Western societies have pursued programs of privatization and deregulation since the late 1970s in an effort to invigorate their economies by promoting competition. In the United States, deregulation began during the Carter Administration in such sectors as transportation, energy, and finance, and progressed further under the Reagan Administration of the 1980s. In Britain, the Thatcher government privatized over twenty public entities, beginning with British Petroleum in 1979 and including a number of public utilities such as electric power, telecommunications, and water.

In the countries which have carried out structural reform along these lines, including the U.S. and Britain, the 1990s have seen a dynamic economic recovery. The U.S. has now set a target of balancing its federal budget by 2002, while in Europe a grand scheme is under way to achieve a common currency by the same date.

We have entered an era when companies chose countries; that is, there is global competition to offer the most attractive markets. At the same time, this means that

national boundaries have become irrelevant to these open markets. Although Japan ranks second in the world in terms of GDP, inward direct investment, at US\$890 million in fiscal 1994, is a mere 0.4 percent of the world total. Thus, the international evaluation of Japan's attractiveness as a market is not in keeping with the size of its economy.

b. A Perspective on the Present Japanese Market: Three Restraints on Competition which Impede Efficiency

In a truly functional market, a variety of players gather and compete, exercising their creativity and ingenuity to the full; the market judges the results accurately, and an efficient allocation of resources is achieved. At present, however, there are many restraints on competition which impede the efficiency of the Japanese market, to the point where it cannot be said to be fully functional. These restraints which impede efficiency are found in the following three areas:

(i) Government Enterprises

The Special Account operations such as postal services, postal insurance, and postal savings, government-affiliated institutions such as the Housing Loan Corporation, and most of the special corporations are government enterprises; that is to say, the government is the sole or main investor and the main operating entity. These government enterprises have eliminated competition with the private sector from their business activities, and thus lack incentive to increase their efficiency.

(ii) Public Regulation

In a variety of sectors, including transportation and finance, entry is regulated by means of licenses, permits, and authorizations; prices are regulated through authorization or notification requirements for rates and charges; and other aspects of production such as plant and equipment or volume are also subject to public regulation. Markets in which competition is restricted by government regulations of this type are said to account for about 40 percent of GDP (Note 1). Furthermore, some types of "social regulation" (regulation for reasons of safety, hygiene, and other social concerns) have departed from their original purpose and come to serve, in effect, as restraints on competition. These various types of regulation act to restrict competition and shelter inefficiency.

Note 1: According to estimates by the Fair Trade Commission, as of March 31, 1995, government-regulated sectors accounted for 42.3 percent of GDP. In the United States, by comparison, estimates by [C. Winston] of the Brookings Institute showed regulated industries accounting for 6.6 percent of GNP in 1988.

(iii) Private-Sector Self-Regulation

Critics have pointed to the problem of informal control of industries by business organizations and trade associations which carry out quasi-public regulation, for example, by drawing up industry standards or requiring approval of products. There are also numerous instances of self-regulation by the private sector in the name of "orderly competition," that is, an industry imposes internal restrictions on prices, handling charges, rebates, advertising, labeling, and so on. Such self-regulation impedes efficiency in the same way as public regulation. These three types of restraint often exist in multiple layers within the same industry, giving rise to deep-rooted inefficiency and backwardness. The high costs that result from the inefficiency of these industries also impact the free market, where competition is unrestricted. In contrast, in those sectors of the market where there are no restraints on competition, the private sector does business freely. About half of the Japanese market operates under such conditions, and is also open to the vast global market. In these sectors, free and rigorous competition takes place through ceaseless innovation in such areas as efficiency of production and creative product development, making these markets a scene of dynamic activity.

Chapter 2. Toward a National Economy Centered on the Free Market

We believe that we must build a society that is full of vitality and, moreover, enables its members to live in security. Such a society will be centered on the market. The dynamism of the market should be tapped to the fullest possible extent, and its efficient allocation of resources should be allowed to operate. This dynamism and this trust of the market should form the foundations of society. On this basis, adequate consideration must also be given to the system which supports the market in order to ensure that the outcome of the resource allocation realized by the market does not materially impair the trust placed in society as a whole, in terms of fairness, security, and stability. Specifically, the problems to be

addressed include those of the socially disadvantaged and those who fail in the market.

In other words, as the pendulum swings to its fullest possible extent in the direction of the free market, to ensure that it does not shake the very foundations of society we must seek a comprehensive overview which includes the viewpoint of trust.

a. Extending the Scope of the Free Market

The source of increased efficiency in the marketplace is competition. Japanese companies which have succeeded in free competition have earned a high reputation both at home and internationally; they comprise what is often referred to as "Dynamic Japan." As players capable of such dynamic activity begin to appear in every field, the Japanese market will take on vitality and will offer more attractive goods and services. To achieve this goal, restraints on competition must be eliminated and the scope of the market in which competition has free rein must be expanded.

(i) Scaling Down Government Enterprises: Introduce Market Mechanisms and Privatize Wherever Possible Without Delay

A radical review of government enterprises is needed to determine whether (1) the services they provide cannot be entrusted to the private sector, and (2) there are genuine reasons why market mechanisms cannot be allowed to operate.

For example, since the private sector began to deliver parcels, the public-sector postal services have undergone a marked improvement, demonstrating that market mechanisms are indeed effective in this area. As Keizai Doyukai has previously argued, it is also possible to introduce market mechanisms to address the problem of fiscal investment and loans; that is, public corporations operated using fiscal investment and loans should procure funds directly from the market by means of bonds issued by fiscal investment and loan institutions; also, the discretionary management of postal savings and insurance funds should be expanded (Note 2). It is thus possible to increase the efficiency of government enterprises by allowing the judgment of the market to operate, and it will also be possible to determine which enterprises should be privatized or abolished, and which should be operated as government programs.

The prerequisite for consideration of these questions is full disclosure of information. In order to measure the efficiency and effectiveness of government enterprises, every effort should be made to ensure that disclosure is even fuller in their case than in the private sector (Note 2).

Note 2: For statements by Keizai Doyukai on the subject of public lending and fiscal investment and loans, see "Public Lending and Fiscal Investment and Loans: Issues and the Direction of Review" (July 1995) and "Toward Reform of Public Lending and Fiscal Investment and Loans" (July 1996).

(ii) Reducing Regulation: The Visible Effects of Deregulation

Restrictions should be abolished without delay on entry to and withdrawal from regulated industries, and on prices, volumes, plant and equipment, etc. Such restrictions impede efficiency and leave room for the exercise of non-transparent discretionary power and intervention.

As a preliminary to reform of the financial system, the revised Foreign Exchange and Foreign Trade Control Law will come into effect in April 1998. As a result, it is expected that the winds of change will be felt in Japan's financial markets and the waves of the global marketplace will beat on her shores. Also, the second revision of the Deregulation Action Program, announced in March of this year, included repeal of supply-demand adjustment clauses in the transportation sector. Thus, reforms are on the way even in regulated markets which have had a strong influence on the Japanese economy.

In April 1997, the Economic Planning Agency published estimates of the quantitative effects of deregulation. According to these figures, there was an average demand expansion effect of 7.9 trillion yen annually, equal to 1.68 percent of nominal GDP, led by the effects of relaxation of the Law Concerning the Adjustment of Retail Business Operations in Large-Scale Retail Stores. Further, the decreased cost burden on users amounted to an annual average of 4.62 trillion yen, or 0.98 percent of nominal GDP. Thus, we should be fully aware that the steps already taken toward deregulation are achieving visible results.

b. Consolidating the Market Infrastructure to Support Free Competition

We recognize that, in order to allow market mechanisms to operate freely, we must not only expand the scope of the free market but also consolidate its supporting base, including the taxation system, corporate law, rules governing the operation of the market, access to information, and monitoring systems. Only when such a base is in place will free competition based on individual creativity and self-responsibility be possible.

(i) A Market Infrastructure Consistent with International Practices: The Base Must Be Consolidated in a Compatible Form

If we are to create a market which will play a global role, the rules and institutions that form the basis of economic activity must be consistent with international practices. Procedures that are costly and cumbersome by international standards not only hobble domestic companies, but also make it difficult to obtain investment and highly skilled personnel, both from within Japan and from overseas.

In Germany, which, like Japan, has one of the highest effective rates of corporate tax among the developed nations, moves are under way to lower the basic corporate tax rate from 45 to 35 percent. Unless Japan also reduces its effective corporate tax rate without delay, the conditions it offers companies locating here will become even more disadvantageous.

Since the various aspects of the market base are closely interrelated, it is especially important to consolidate them in a consistent way. It will be necessary to establish an order of priority, but nevertheless we must set out a clear overall program and aim to complete it as soon as possible. In particular, those institutions which make up the economic infrastructure, such as the tax system and corporate law, must be made consistent with the rest of the market base; otherwise there will be adverse effects and little practical value.

Together with the revision of the Foreign Exchange and Foreign Trade Control Law, there is also a need for review of the securities transaction tax and brokerage commission for trading of shares, among other charges. Further, certain forms of business operations should not be placed at a taxation disadvantage; thus, in addition to lifting the ban on holding companies, it is essential to introduce a consolidated tax payment system.

(ii) Eliminating Non-Transparent Standards (Such as Discretionary Power and Intervention) in the Operation of the Market: Establish Clear Rules and Enforce the Principle of Self-Responsibility

In a free market, each player is guaranteed the freedom to do business on his or her own responsibility. However, clear rules must be established to ensure that their free activities do not interfere with the freedom of other players to do business. Furthermore, these rules must be established by legislation in the Diet. Administrative agencies should take action only where there is a basis in law; enforcement and intervention by means of discretionary authority must be eliminated.

(iii) Disclosure of Information: Adapting to Global Standards

Disclosure of information is an aspect of the market base which will take on increasing importance in the future (Note 3). The market can make correct judgments only when accurate information is available.

The International Accounting Standards (IAS) are a move toward making accounting standards internationally consistent in order to accurately disclose the contents of corporate management. There is a trend in Europe and North America toward accepting these as global standards. Japanese accounting standards should be urgently reviewed with a view to harmonizing them with IAS, in order to secure a level of transparency consistent with international practices, among other reasons. At the same time, it will be necessary to make the taxation system and corporate law consistent with these standards.

If the market is to take on its full importance, a mechanism must be provided so that consumers can make informed choices. In the relationship between suppliers and consumers, it is the suppliers who have more information; we must therefore put in place mechanisms to give consumers access to relevant information that they would otherwise lack. A major role in this process will be played by intermediaries such as analysts and publishers of consumer reports, who analyze large volumes of information appropriately and pass them on to the market in a readily understandable form.

Note 3: Unless otherwise specified, figures in the text indicating the views of corporate executives are the results of a survey titled "The Market at the Beginning of the Twenty-First Century," conducted April 22-May 9, 1997. In this survey, 47.1 percent of respondents cited information disclosure as the most important component of the market base. This was followed by 32.6 percent who cited rules such as competition policy, and 22.1 percent who cited the attitude of the market players.

(iv) Multilayered Monitoring Systems: Provide an Environment for Oversight Agencies to Function Independently and Adequately

In a free market, there is no prior regulation for entering the market. The role of monitoring systems in ensuring that fair competition occurs in the marketplace therefore takes on all the more importance.

The first essential is that individual market players must improve their internal monitoring of their own conduct. This conduct will then be judged, in the first instance, by the market.

As an additional safeguard, in cases of conduct which distorts fair competition there is a need to seek the judgment of a third party, an independent body having jurisdiction over the market rules. The Fair Trade Commission, which enforces the Anti-Monopoly Law and oversees whether fair competition is operating, will play an even more vital role than it does at present. As the organizational structure of the Fair Trade Commission has now been strengthened, legal actions such as recommendations should be taken more aggressively. It is also hoped that the independence of the Financial Supervision Agency, which is to be established by July 1998, will be assured.

As Keizai Doyukai has repeatedly emphasized, it is the judiciary which forms the last bulwark of the monitoring mechanism (Note 4). Unless such forms of legal recourse as compensation for damages and injunction are readily available, the foundations of the free market will be undermined. It is hoped that a system to expedite judicial proceedings will be established.

Note 4: For statements by Keizai Doyukai on judicial reform, see "Japanese Society Today: Pathology and Prescriptions" (June 1994) and "Toward the Establishment of a System of Corporate Law Adapted to Globalization" (January 1997).

c. A Second Chance in the Market, and Independence for the Socially Disadvantaged

The basis of the free market is the efficient allocation of resources through competition. Thus, we can expect to see more unsuccessful competitors than in the past. There are also those disadvantaged members of society who, due to some handicap, cannot adequately avail themselves of opportunities, or for whom opportunities are not readily available.

We do not believe that every problem can be solved by the market. In particular, it is necessary to make a clear distinction where the problems of the socially disadvantaged are concerned, and to institute measures which place priority on meeting their needs.

In the past, protection policies have been applied indiscriminately to certain groups such as farmers, small- and medium-sized enterprises, and the elderly, through

regulation, subsidies, taxation measures, and other programs. These policies contained a number of internal contradictions: (1) they covered members of the group who were neither disadvantaged nor failed competitors, but had sufficient competitiveness; (2) they extended relief measures intended for the socially disadvantaged to unsuccessful competitors and thus saved them from being duly selected out; (3) they did not encourage the efforts of the socially disadvantaged toward independence. Such policies not only support inefficiency and raise social costs; they also give rise to vested interests and deny those disadvantaged persons who should be able to independently achieve the opportunity to do so.

(i) Those Who Fail in the Market Should Try Again: Provide an Environment for Second Chances

In a free market, the operative principle is that inferior competitors are weeded out by the market mechanism, leaving only those who can succeed; as a result, the market becomes efficient.

There is no need to rescue those who lose as a result of competition. They should have the chance to try again in the market and discover the right place to make the most of their abilities. At present, however, it cannot be said that there is an adequate environment for second chances, whether in the capital market or the labor market. Such an environment is urgently needed.

A person who has failed once in business in Japan loses social credibility and faces a serious handicap in such areas as obtaining funds. It is therefore essential that we create systems and a climate to enable fair evaluation of individual abilities and business plans, and also that we improve the environment for the supply of venture capital.

With regard to the job losses which inevitably accompany competition, unemployment insurance should naturally be paid for a fixed period, but measures must also be devised to promote mobility in employment (for example, by privatizing employment agencies and improving the education system) and thus provide an environment in which job-seekers can quickly find re-employment.

(ii) Encouraging Self-Help Efforts by the Socially Disadvantaged: Assistance Toward Achieving Independence

The market is overflowing with opportunities. But there are those who cannot take full advantage of these opportunities due to some handicap. These are the socially disadvantaged for whom we believe special measures should be provided.

The purpose of assistance for the socially disadvantaged is to enable them to participate by their own efforts in the marketplace and become as independent as possible. This assistance should always be premised on self-help efforts, and should focus on eliminating competitive handicaps and providing new opportunities.

Adequate measures should be taken to provide a public guarantee of livelihood for those who have no opportunity to participate in the market, such as persons with severe physical or mental disabilities and elderly people in need of care (Note 5).

Note 5: For statements by Keizai Doyukai on the subject of social security in general, see "Seeking a Society Where All Can Live Securely" (April 1997).

Chapter 3. Challenges for the Corporate Community

In Chapter 2, we outlined our vision of a market-centered national economy. As we have stated, we seek a transformation of the economic system. Further, we believe that speed is vital in carrying out the necessary reforms; as a target date, the institutional basis should be in place by the year 2000.

At such a time of change, the companies and corporate executives who are the driving force of creative activity in the marketplace must make the market the foundation of their business management, and must also carry out their own reforms in order to support the market.

a. Creating an Attractive Market

(i) Promoting Reform

Keizai Doyukai has long held that regulation should be basically abolished and government-regulated sectors reduced to under 10 percent of the economy, as in the United States. However, the majority of corporate executives predict that, five years from now, the extent of government regulation, which is presently said to be 40 percent of GDP, will only have decreased to around 20 to 30 percent (Note 6). Thus, the tempo of reform cannot be said to be adequate.

The government has begun efforts toward achieving reform of six major areas, including the economic structure, and we ourselves must take action to further the movement toward reform. Companies in sectors that have been regulated until now, or which have faced only limited competition due to self-regulation by the private sector (internal industry rules), must resolve to hold their own in a freely

competitive marketplace. It must be understood that players who take refuge in regulation will only weaken their international competitiveness and endanger their own survival.

Note 6: In five years time, government-regulated sectors were expected to account for about 30 percent of GDP by 48 percent of respondents, and for about 20 percent by 44 percent of respondents.

(ii) Creating Markets

One reason why we believe that the economic system must be changed is the need to activate the economy in the true sense through the emergence of new and highly creative businesses.

At present, however, the rate of establishment of new companies in Japan is barely 5 percent, a mere third of the rate in the United States. While deregulation is clearly an important precondition for the emergence of new businesses, corporate executives do not foresee a significantly higher rate five years hence (Note 7).

In the past several years, the system for supporting venture companies has been improved by such measures as the establishment of the Frontier Market (Japan OTC Small Cap Market) under special rules, the introduction of a stock option system for new companies, and the decision to introduce special tax treatment. These systems must be further expanded and improved; at the same time, successful entrepreneurs and market innovators must help others utilize them, by cooperating where appropriate in such areas as investment, evaluation, and advice, so as to create a supportive environment for venture businesses (Note 8).

Note 7: Predictions of the rate of establishment of new businesses in five years time were concentrated in the 5-8 percent range (57 percent of respondents). A further 27 percent estimated that it would rise to 8-12 percent, or more than twice the present level.

Note 8: For a statement by Keizai Doyukai on venture businesses, see "The Rebirth of the Entrepreneurial Spirit" (June 1995).

Established companies also have a major role to play. It is established companies which have accumulated by far the greatest resources of talent, technology, and know-how. The relative strengths and weaknesses of these companies are now becoming clear, both within a given industry and between different industries, in an ongoing process described as "polarization." In order to survive as this process

continues, companies must take on a new robust strength by concentrating their accumulated management resources in a selective way. Innovation is the wellspring for creating an attractive market; accordingly, companies must revitalize their own organization, draw fully on their human resources, and spare no effort in the pursuit of technological innovation.

b. Corporate Management and the Evaluation of the Market

(i) Jobs and Profits

In the past, among the various stakeholders in Japanese companies, managements have placed primary emphasis on their employees. In a fully functioning market, however, companies will be held responsible to their stockholders to a greater degree than in the past. In order to win the approval of stockholders, the pursuit of profits must be a major corporate goal. Each company should treat return on equity (ROE) or a corresponding index as an important criterion for managerial decision-making, and should restructure in such a way that an appropriate return on investment can be obtained.

At present, the average ROE of Japanese companies is said to be about 4 percent. This is not an adequate level to gain a high evaluation by the market. ROE must be improved, not merely by adjusting denominators, but by high-quality management which emphasizes efficiency (Note 9).

However, the level of ROE for which a company should ultimately aim is a decision which each management must make for itself, based on its particular business environment. The proper ROE will differ according to a combination of factors, such as whether to judge from a short- or longer-term viewpoint, how to assess growth potential, and what to do about the employment problem. In regard to the latter, if short-term improvement of ROE is made an absolute imperative, jobs may be sacrificed in some cases, but if the goal is long-term improvement of ROE, careful attention must be paid to employment. The important point is that the company's chosen course will ultimately be evaluated solely by the market.

Note 9: Predictions regarding ROE in five years time were as follows: 24 percent expected ROE to remain more or less unchanged (from a current level of 3.4 percent, according to a 1995 survey of listed companies); 57 percent expected an ROE of about 5 percent; and 19 percent expected an ROE of about 8 percent. While these levels certainly cannot be considered adequate, ROE should not be

compared directly with those of Europe and the U.S. in view of the differences in business conditions such as long-term interest rates and corporate taxes.

(ii) Environmental and Safety Issues

With regard to environmental and safety aspects, it goes without saying that companies must strictly observe the rules; further, it is vital that each company, in its role as an important corporate citizen, should voluntarily strengthen its efforts in these areas.

The majority of the executives surveyed believe that environmental and safety concerns will not be neglected in a free market. The main reason they gave for this belief is that consumers and corporate clients will make stricter demands than they do at present (Note 10). In other words, attentiveness to environmental and safety concerns will be an important condition of competition.

Note 10: When asked whether they thought environmental and safety measures would be neglected if competition become more severe, 34 percent replied "yes" and 66 percent replied "no." As the reason for the latter answer, 91 percent cited stricter demands by consumers and corporate clients.

c. Management Based on the Principle of Self-Responsibility

(i) Basing Corporate Management on Self-Responsibility

Business corporations are presently involved in endless scandals. Unfair practices in the marketplace, false reporting, and similar conduct show disregard of the market and seriously impair its credibility. The first duty of those who uphold the market is for each manager and each employee to exercise self-discipline, taking personal responsibility for his or her own actions. In addition, companies must recheck their internal monitoring system to ensure responsible corporate conduct. The market has a self-cleansing action; this means that it assesses improper actions strictly and operates in such a way as to eliminate them. Companies whose corporate governance does not function will find themselves unable to survive in the marketplace.

According to a survey by Keizai Doyukai's Committee on Corporate Management, most executives believe that, if we are to achieve an economy led by the private sector, companies must exercise strict self-discipline, and must draw up

comprehensive codes of conduct governing the behavior of managers and employees. Many have in fact drawn up such codes (Note 11). Further, the structure and functions of the board of directors and the auditors (or board of auditors) should be reviewed in order to ensure that their three functions within the company, namely, strategic planning, conduct of business, and monitoring of business, operate organically and effectively. With regard to monitoring of business, measures that should be considered as part of this review include hiring outside directors, ensuring the independence of auditors, and making more extensive use of external auditors. (Note 12).

Note 11: According to the "Survey on Corporate Conduct Codes" (Committee on Corporate Management, April 1997), 48 percent of companies had drawn up conduct codes, and a further 24 percent were considering doing so. Such a code was regarded as essential by 61 percent of executives surveyed, and as desirable by 28 percent.

Note 12: For statements by Keizai Doyukai on strengthening the functions of boards of directors and auditors, see "The Ideal Form of Japanese Corporate Decision-Making for the New Era" (April 1996) and "12th Corporate White Paper" (May 1996).

(ii) Increasing Transparency

If companies are actively seeking a good evaluation by investors, they will prepare consolidated financial statements as a matter of course, but they must also aim for greater transparency in the information they disclose voluntarily; for example, placing managerial emphasis on consolidated accounts by such means as setting management targets under consolidation, and actively disclosing market price information.

Mandatory information disclosure reveals only one aspect of corporate activities. Investor relations (IR) activities are needed to supplement this standardized information and convey a realistic picture of company activities. Thus, IR programs will take on increasing importance in future, and since these programs make information available according to the company's own judgment and responsibility, the understanding and participation of top management are essential.

As companies vie for the support of consumers, they are already competing to provide better information in the form of detailed specifications, instructions for use, and so on. In future, transparency must be secured to enable consumers to make

responsible choices, for example, by indicating clearly whether a product is covered by pay off or what types of servicing are not included under its warranty.

Conclusion

We believe that, given the proper environment, the market can achieve an efficient allocation of resources. We have presented our views on how restraints on competition should be removed and the market base improved in order to provide that proper environment.

At the same time, we believe that a market-centered society must be one which is not devoted solely to the pursuit of market efficiency, but which also maintains trust in the society as a whole. We have noted earlier that gaining a successful reputation in the free market is not incompatible with placing importance on the environment, safety, and employment. We have also pointed out that meeting the needs of the socially disadvantaged is an important issue for society as a whole. When the basis that supports the market is firmly consolidated in this way, the society will gain greater trust.

As we move toward achieving such a society, the corporate community faces some major challenges. We have discussed the importance to companies, as market players, of creating a more attractive market and of the issues of social responsibility and self-responsibility. It should be understood, however, that it is the individual business operator who must judge how to address these issues, and the evaluation of the market that must determine whether his or her judgment is correct.

Our goal is to create an attractive market where new businesses, robust companies, and the talents of highly creative people can flower and flourish. It is our hope that the Japanese market of the twenty-first century will blossom in a multicolored array which will brighten the global marketplace.