

Our Hopes for the New Noda Administration: Mobilize and Speedily Implement All Available Policies to Achieve Growth

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Introduction

The newly installed cabinet of Prime Minister Noda is up and running. As previously stated in “Expectations for the New Noda Government” (dated August 30, 2011), mobilizing all available policy actions to realize economic growth is a critical requirement that will also contribute to recovery from the earthquake and the achievement of fiscal soundness. Based on this understanding, we earnestly hope that the Noda cabinet will implement the policies outlined below and that it will work toward establishing a government framework that will facilitate effective implementation of such policies.

1. Mobilize All Available Policies to Achieve Growth

In its “Overall Picture of Policy Promotion” (Cabinet decision of August 15, 2011), the government has included the goal of achieving an average nominal growth rate of about 3 percent and an average real growth rate of about 2 percent through fiscal 2020. In order to meet this goal, all available policy actions should be mobilized and steadily and speedily implemented in accordance with a clearly defined set of priorities.

(1) Speedily implementing “New Growth Strategy”

- Regarding the government’s “New Growth Strategy” (Cabinet decision of June 18, 2010), following a review undertaken after the Great East Japan Earthquake, a decision was made to redesign and bolster the strategies for achieving renewed growth, while adhering to its strategic targets and

timetables in principle. We earnestly hope that the key policy measures outlined in the attached Appendix (“Key Policies and Implementation Timetable for New Growth Strategy”) will be speedily implemented for the realization of growth and the creation of employment.

- As a nation confronted with a dwindling birthrate, rapid aging, and diminishing population, it is vitally important for Japan to engage in far-reaching regulatory reform that will lead to the creation of a free and open market. The realization of this objective is of critical significance in stimulating domestic demand and creating employment by promoting inward foreign direct investment and in contributing to the emerging high-growth economies in Asia and elsewhere, thereby generating wealth in Japan by benefiting from overseas economic growth. Therefore, we believe that in the process of redesigning and bolstering Japan’s growth strategies, bold action should be taken on the following points.

- (i) Accelerate EPA/FTA negotiations (e.g., announcement of participation in TPP negotiations no later than at the November 2011 APEC meeting).
- (ii) Develop Japan into an internationally competitive business location through regulatory reform and tax reform (e.g., 5 percent reduction in effective corporate tax rate beginning in fiscal 2012).
- (iii) Strengthen united efforts by government, bureaucracy, and business for opening up overseas markets.
- (iv) Increase the entry of highly skilled human resources from abroad.
- (v) Promote agricultural reform to create a strong and internationally competitive agricultural sector.
- (vi) Enhance tourism and cultural strategies and export strategies for reviving the “Japan brand.”

(2) Focusing on flexible economic management by cooperating with the Bank of Japan

- In its Monthly Economic Report of November 2009, the government stated that the Japanese economy was experiencing a “mild deflationary phase.” However, we have yet to see any prospect of the Japanese economy escaping the clutches of deflation. The government should present without any delay a concrete roadmap for achieving moderate economic growth coupled with an end to deflation (goals of 3 percent nominal and 2 percent

real economic growth). Unless this is done, the growth goals will remain nothing more than wishful thinking.

- The government should do its utmost to follow a path of economic management that will stimulate and revitalize the market. In particular, the government and the Bank of Japan should cooperate closely in aggressively expanding the monetary base through a comprehensive program for further monetary easing.
- The continued sharp appreciation of the yen is depressing corporate profits and rendering the prospects of escaping the clutches of deflation even more difficult than in the past. On August 4, the government and the Bank of Japan intervened in the foreign exchange market and implemented additional monetary easing. However, in view of exchange rate movements that followed this action, no opportune timing should be missed, and the government and the Bank of Japan should work together in exhibiting firm determination and in urging other countries to take coordinated action.

2. Accelerate Recovery and Reconstruction from the Great East Japan Earthquake

(1) Expediting the process of recovery and reconstruction

- Policies for post-quake reconstruction have been spelled out in “Basic Guidelines for Reconstruction in Response to the Great East Japan Earthquake” (July 29, 2011 decision of the Reconstruction Headquarters in Response to the Great East Japan Earthquake and the August 11, 2011 revision of the same). Now, the government must do everything in its powers to specify and implement concrete measures. What is urgently needed now is to rekindle the hope of the disaster victims and to begin treading the path toward renewed growth in the afflicted areas and throughout the whole of Japan.
- In the three most seriously affected prefectures of Iwate, Miyagi, and Fukushima, basic recovery plans and visions have already been formulated. To accelerate the realization of these plans, the following

matters should be speedily deliberated upon in an extraordinary session of the Diet and enacted as quickly as possible.

(i) Third supplementary budget bill

Measures should be taken to increase and expand the scope of lump-sum subsidies that respect regional autonomy and allow for free discretionary use within the bounds of certain national guidelines (establishment of a program for easy-to-use grants and subsidies to local governments).

(ii) Bill for special economic zones to promote reconstruction

The system should be designed to cover the entire Tohoku region and to permit bold measures for regulatory reform and preferential tax treatment.

(iii) Bill for creation of reconstruction agency

Administrative authority and budgeting for reconstruction is currently divided among a number of government ministries and agencies. A government agency with full and centralized authority over all aspects of reconstruction should be created as soon as possible and some local branch bureaus and departments of the national government should be transferred to this agency.

- Regarding funding for reconstruction, the easy solution of raising taxes should be avoided as far as possible. Instead, a path to fiscal soundness should be envisioned while first considering the following possibilities, which are listed in order of priority.

- (i) Reduce government spending wherever possible (ensure efficient use of budget, including funds budgeted for reconstruction, and freeze all non-essential and non-urgent spending), and liquidate portions of equities held by government.
- (ii) Establish a special recovery fund and issue recovery fund bonds.
- (iii) If sufficient funds for redemption of recovery fund bonds are unavailable, consider the minimum possible tax increase based on the best mix of the three core taxes (i.e., corporate, income, and consumption taxes).

(2) Calling for the government to responsibly do everything possible to eliminate fears related to the nuclear accident and radiation contamination

- The government should take responsibility for coping with the nuclear accident and radiation-related problems, and the greatest possible effort must be made in the following areas to eliminate the fears and anxieties of residents. It is particularly important to assign top priority and pursue speedy implementation of measures for ensuring the safety of children for whom radiation poses the greatest risk.

- (i) Promptly contain the nuclear accident (beginning with achievement of cold shutdown by January 2012).
- (ii) Decontaminate and dispose radioactive waste.
- (iii) Conduct longitudinal health monitoring of children and other groups.
- (iv) Implement group evacuation of children in school units from areas where exposure to radioactivity is a concern.
- (v) Ensure food safety by monitoring radiation levels of foods used in school lunches.

(3) Avoiding power shortage by restarting nuclear plants after confirming safety

- Japan will face a serious power shortage if nuclear power plants whose safety has been confirmed in periodic inspections are not restarted. This can have a very grave impact on economic activities and the lives of the people in general. While making every effort to remove the anxiety and suspicions of the public, nuclear power plants whose safety has been confirmed should go back into operation.

- (i) Implement stress tests without delay.
- (ii) Confirm implementation method, process oversight, and results by IAEA and other specialized foreign organizations.
- (iii) Set clear final criteria for allowing the restart of nuclear power plants.
- (iv) Ensure full disclosure and release of investigation and verification results of the Investigation Committee.

- The Innovative Strategy for Energy and the Environment and the New Basic Energy Plan of the government are scheduled to be finalized next year. As a preliminary step, basic guidelines should be established before the end of 2011, following full disclosure of objective facts and data pertaining to the characteristics of various power sources, including nuclear power and renewable energy; possibilities for the development of new technologies; and the costs of power generation and technology development, as well as cool-headed discussion of the best power mix for Japan and the future of power supplies.

3. Pursue Fundamental Reforms for the Resolution of Structural Problems

(1) Formulating a concrete roadmap for achieving fiscal soundness

- The outstanding balance of national and local government bonds is projected to reach 894 trillion yen (185 percent of GDP) by the end of fiscal 2011. While the “Fiscal Management Strategy” (Cabinet decision of June 22, 2010) adopts the goal of achieving a primary balance surplus by fiscal 2020, no concrete roadmap has been established for realizing this objective. Meanwhile, attention has become narrowly focused on funding the recovery from the Great East Japan Earthquake, which will require 13 trillion yen (excluding the 6 trillion yen already included in supplementary budgets) over the next five years. However, if the roadmap to the achievement of fiscal soundness remains unclear, this will lead to a loss of confidence in Japan, which may eventually become a risk factor for the entire global economy. Therefore, a concrete roadmap for achieving fiscal soundness should be formulated without delay, taking a unified approach to the issues of integrated social security and tax reform, growth strategy, and recovery and reconstruction from the Great East Japan Earthquake.

(2) Implementing thoroughgoing reform of tax and social security systems

- The government’s “Definite Plan for the Comprehensive Reform of Social Security and Tax” (Cabinet report on July 1, 2011) establishes certain directions for integrated social security and tax reform aimed at achieving

fiscal soundness. However, the specific measures and timetable presented in this proposal do not provide a definite answer to the question of whether fundamental reforms are envisioned in terms of systemic sustainability, the balance between benefits and burden, and the rectification of intergenerational disparities. Specific systemic revisions in the areas of the pension system, medical care, and long-term care should be formulated as soon as possible to lay the groundwork for fundamental reform. In particular, reforming the social security system can be expected to contribute to promoting growth strategies by allaying insecurity and anxiety regarding the future and thereby boosting consumption. For this reason, there is an urgent need to institute social security reforms as soon as possible.

- The recent disasters have driven home the importance of introducing a national identification number system, computerized medical records, and online processing of health insurance claims. Introduction of these systems has been long delayed, and should be implemented with due speed to improve the infrastructure.
- In the area of tax reform, it must be realized that the government is funding its spending by issuing more bonds than it collects in tax revenues, and that this situation represents a crisis in national management. The Japanese tax system is notable for its high dependence on direct taxes and a consumption tax rate that is very low by international comparison. As indicated under Article 104 of the Supplementary Provisions of the Tax Reform Act 2009 and the Definite Plan for the Comprehensive Reform of Social Security and Tax, tax reforms centered on indirect taxes should be implemented at an early date as part of the integrated reform of the social security and tax systems.

(3) Achieving Equality in Vote Value

- At the base of many of the problems confronting Japan is the problem of the disparity in vote value. A maximum disparity in vote value of 2.305 times was registered in the 2009 election of the House of Representatives. In its decision of March 23, 2011, the Supreme Court judged that this election had taken place under unconstitutional conditions. The legislative branch would be remiss in its duty to uphold the separation of powers if the

next election of the House of Representatives is held under the same conditions without due reapportionment. Such an eventuality would seriously undermine the foundations of national governance. Politicians must be reminded that they are the only ones empowered to enact laws that govern and regulate themselves. Urgent action must be taken to rectify the current situation and to lower the disparity in vote value to no more than 1.5 times.

4. Promote Proactive Diplomacy for Contributing to the International Community

(1) Strengthening and deepening the Japan-US alliance

- Under the rule of the Democratic Party of Japan, considerable turmoil has surrounded the issue of the relocation of the Futenma air base in Okinawa. However, it should be noted that the Japan-US alliance is important not only to the security of Japan but also to the security of the Asian region. The Noda administration should renew its awareness of the importance of the bilateral relationship and should endeavor to strengthen and deepen the alliance between the two. The resolution of the Futenma problem must be included in these efforts.

(2) Breaking free of inward-looking attitudes

- Japan's politics and economy remain stagnant and inward-looking attitudes are prevalent in society. However, as a member of the advanced democratic nations of the world, Japan is in a position where it must cooperate with the countries with which it shares common values and show initiative in contributing to the peace and prosperity of the international community. With this awareness, Japan must formulate a positive vision for the future of the international community and contribute to its security and to the resolution of the problems of the world economy. Similarly, Japan must adopt a proactive diplomatic stance in prompting other countries to arrive at a consensus on such global challenges as terrorism, poverty, infectious diseases, the environment, and energy, thereby exhibiting leadership in solving these problems.

Conclusion

In order to implement these measures, it will be vitally important for the Noda cabinet to establish a robust framework for political management. Under the leadership of Prime Minister Noda operating in an environment of party unity, every possible effort must be made to utilize the capabilities of the bureaucracy, promote cooperation between the ruling and opposition parties, ensure transparency in the policymaking process, engage in dialogue with every sector of society, and present the people with full and clear explanations on all key issues. It is highly possible that the ruling party will change on a regular basis in Japan. With this in mind, both the ruling and opposition parties should make an effort to rise above narrow partisan interests and strategies. Instead, they must commit themselves to responding to the expectations of the public by developing mechanisms that will enable them to assign top priority to the highest interests of the people as they move forward in formulating and implementing policies.

Appendix

Key Policies and Implementation Timetable for New Growth Strategy

** Compiled on the basis of the government's "New Growth Strategy" (Cabinet decision of June 18, 2010) and "Interim Report on Strategies to Revitalize Japan" (Cabinet decision of August 5, 2011).*

1. To Be Implemented by December 31, 2011

Strengthen Locational Competitiveness

- Commit to 5 percent reduction in effective corporate tax rate in Outline of Tax Reform Proposals (*implement in fiscal 2012*).
- Enact the Bill on the Promotion of Japan as an Asian Industrial Center (*implement immediately*).
 - * Formulate a program for promoting Japan as an Asian industrial center and encouraging inward investment; introduce tax breaks and other incentives for attracting and creating concentrations of Asian regional head offices and R&D centers.
- Designate comprehensive global strategic special zones, and determine preferential regulatory measures (*implement immediately*).
 - * Implement an integrated and comprehensive package of actions comprising special regulations and tax, fiscal, and financial support measures.

Benefit from Overseas Economic Growth

- Strengthen information gathering, overseas networking, and marketing capabilities for exporting a package of infrastructure-related systems and facilitate the flow of related information and business operations.
- Formulate and implement a roadmap for capturing volume-zone markets.
- Use domestic and overseas events, business talks, and other functions for comprehensive sales promotion and transmission of information.
- Use domestic and overseas creators (film directors and others) to appeal and propagate the attractiveness of Japan.

Enhance Economic Partnerships

- Announce Japan's intent to participate in TPP negotiations (*prior to the November APEC meeting*).
- Accelerate government talks on ASEAN+3 and ASEAN+6.
- Implement and accelerate scoping operations for Japan-EU EPA negotiations.
- Take action for conclusion of WTO Doha Round negotiations.

Promote Innovation

- Formulate government budget that includes R&D expenditures for addressing key policy priorities (*implement in fiscal 2012*).
- Simplify evaluation and confirmation procedures for highly advanced medical technologies.
- Develop quality standards for health-related service providers.
- Establish basic safety assessment standards and procedures for service robots.
- Implement deregulation and other measures for developing an environment for creating attractive tourism resources.

Increase Entry of Highly Skilled Human Resources from Abroad

- Decide to conduct certification examinations for nurses and care workers in English and mother languages of examinees (*implement in fiscal 2012*).
- Resolve to launch programs for Japanese language acquisition and to increase opportunities for taking proficiency tests (*implement in fiscal 2012*).

2. To Be Implemented by March 31, 2012

Strengthen Locational Competitiveness

- Manage port facilities from a private-sector perspective and implement measures for attracting cargo, including lowering port costs.
- Improve services to shippers by extending open-gate hours and promoting 24-hour services.

Benefit from Overseas Economic Growth

- Create support package for entry and expansion of SME operations in overseas markets.
- Develop incentives for joint international film production and filming in Japan.

Enhance Economic Partnerships

- Launch Japan-China-South Korea FTA negotiations.
- Initiate Japan-EU EPA negotiations.

Promote Innovation

- Reorganize competitive research funding, including rationalization and consolidation of overlapping programs.
- Bolster the development of systems for establishing international standards.
- Create a supportive framework for bioscience startups, develop fundamental technologies, and improve infrastructure.
- Implement deregulation for international medical exchange and consolidate promotion and certification systems.
- Study and implement measures to promote the use of services not covered by the long-term care insurance system to supplement the national insurance scheme and to respond to diverse user needs.
- Involve farmers, agricultural corporations, and food businesses in promoting the development of the “sixth industry.”

Increase Entry of Highly Skilled Human Resources from Abroad

- Introduce point system for preferential treatment of highly skilled human resources.
- Promote credit transfer programs with universities in Asia and others.

3. To Be Implemented by Summer of 2012

Strengthen Locational Competitiveness

- Move toward the conclusion of tax, social security, and investment treaties.
- Promote the establishment of comprehensive exchange markets (securities and financial products).

Benefit from Overseas Economic Growth

- Pursue easing of overseas restrictions on content (conclude Japan-China-South Korea agreement on deregulation of entry of content).
- Develop infrastructure and the legal system and promote standardization for transmission and broadcasting of digital content and for creation of new media.

Enhance Economic Partnerships

- Establish a roadmap for the realization of the Free Trade Area of the Asia-Pacific (FTAAP).

Promote Innovation

- Reorganize the Council for Science and Technology Policy to strengthen its functions as a central command post.
- Promote growth and create jobs in a health services industry that collaborates with medical and long-term care services.
 - * Design and introduce incentives to encourage insured persons to maintain and improve their own health.
- Increase overseas demand for Japanese food through promotional and educational programs on Japanese cuisine and foodstuff matching local needs and preferences.

Increase Entry of Highly Skilled Human Resources from Abroad

- Improve the labor and employment environment and social and living conditions so that they are attractive to highly skilled foreign workers.

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