

Fiscal 2012 (27th) Summer Seminar

**Tohoku Appeal 2012
Decision and Action for Reconstruction and Growth**

July 13, 2012

1. Promoting an “Action-Based Keizai Doyukai”

Under the slogan of “Action-Based Keizai Doyukai,” we have taken various specific actions over the past year for translating our proposals into reality and promoting recovery and reconstruction from the Great East Japan Earthquake. Going forward, we are committed to further enhancing these activities.

There are numerous areas in which we, as business leaders and as companies, must take the initiative in grappling with the challenges of reconstruction and growth. Similarly, there are many changes that we must make in ourselves. With this awareness in mind, we intend to accept certain risks in taking on the challenge of contributing to the realization of reconstruction and growth.

2. Mobilizing the Nation and Creating a Vision for Accelerating the Process of Recovery and Achieving Reconstruction as a Prelude to Taking Swift Action

Sixteen months after the Great East Japan Earthquake, the process of recovery is still at the halfway mark, while progress has been frustratingly slow in the process of reconstruction and the reconstruction of industries in particular. With the passage of time, the challenges of recovery and reconstruction are being viewed increasingly as a problem exclusive to the disaster stricken areas. We must remind ourselves that the reconstruction of the Tohoku region demands a national undertaking of immense proportions given direction by a ten-year vision. Now is the time to mobilize the nation in all its capacities. Guided by a fully articulated vision, the national government, local governments, businesses, NPOs, and individuals must act to fulfill their respective roles and responsibilities with determination and speed, and a continuous stream of both domestic and international disclosure must be maintained on progress made toward reconstruction.

(1) Shaping the Future of Tohoku through the Initiative for the Reconstruction and Development of the Tohoku Region

- The Initiative for the Reconstruction and Development of the Tohoku Region has been launched as a collaborative effort involving a wide range of sectors including academia—represented by Tohoku University and other core universities of the Tohoku region—as well as the local business community. Keizai Doyukai and its interested members are committed to participating in a key way in this initiative. We believe it is particularly important for the people of Tohoku to be empowered to play a leadership role in regaining their autonomy and creating their future. With this in mind, we will dispatch human resources as needed by local governments and will undertake reconstruction support over the next five years that incorporates human resources development programs, including town rebuilding and entrepreneur training.

(2) Eliminating Bottlenecks in Recovery and Laying out the Path to Reconstruction

- One of the most urgent challenges is to pursue the building of sustainable towns to ensure that disaster victims can rebuild their lives and livelihoods. But such factors as slow progress in debris removal and disposal and delay in reaching a consensus among residents regarding land use have become bottlenecks in recovery, hindering reconstruction including town rebuilding. As the first step, the Reconstruction Agency must pursue necessary legislative and budgetary measures that will support the establishment and implementation of clearly defined policies and action plans. Having done that, the government must once again move the recovery program forward with due speed, while securing the consent of local governments and residents.
- The recovery and reconstruction programs have been seriously delayed in Fukushima Prefecture due to problems of radioactive contamination resulting from the nuclear power plant accident. The various measures contained in the Basic Policy for the Reconstruction and Revitalization of Fukushima must be steadily implemented. At the same time, to speed the recovery of the local infrastructure and the livelihoods of residents, the national government must exhibit leadership in carrying out speedy and effective decontamination, ongoing and regular examination of internal and external radiation exposure, continuous monitoring of radioactive materials, and the speedy establishment of interim storage facilities for radioactive materials.

(3) Plans and Actions Prioritizing Business Rehabilitation, Attraction of Businesses, and Industrial Promotion

- Until now, most of the reconstruction budget has been spent on public works aimed at speeding the recovery. However, true reconstruction requires effective industrial promotion—including rehabilitating existing businesses, attracting businesses to the region, and launching new businesses—and job creation through that industry.
- These efforts are obstructed by a serious shortage of human resources in local governments. Support is especially needed in such areas as rezoning, compulsory purchase of land, and industrial promotion. To meet these urgent needs, a wide range of private-sector personnel should be dispatched in addition to local government employees and retired government administrators. However, steps should be taken to draw a line between this initiative and the economic interests of specific companies. For instance, various methods should be considered and institutionalized to ensure the dispatch of a diverse range of human resources, including mobilizing the personnel of existing public-interest organizations.
- In the area of attracting new kinds of industries to the region, although a considerable range of preferential measures featuring special reconstruction zones and subsidies have already been introduced, these have not been enough to provide the affected areas with a competitive edge in attracting businesses. To realize the entry of businesses on a substantial scale, bold measures must be adopted that are at least on par with similar international programs.
- Local communities have welcomed group-based subsidies as a highly effective policy measure for rehabilitating existing businesses. This initiative should now be extended to small and medium enterprises and microenterprises. Necessary budgetary measures should be adopted on an emergency and special basis, while paying careful attention to avoiding moral hazards.

(4) Ongoing Verification of Reconstruction Budget

- To heighten and facilitate the responsiveness of local governments going forward, the Reconstruction Agency must thoroughly examine and verify the uses, allocation, and impact of the reconstruction budget and must disclose its findings without delay. This verification of the budget is critically important in ensuring the efficient allocation and management of the fiscal 2012 budget, and will also contribute to the efficient implementation of the reconstruction budget in future years.

3. Three-in-One Reforms: Growth Strategy, Government Budget Cuts, and Revenue Hikes

The government has adopted the goal of achieving 3 percent nominal and 2 percent real economic growth and achieving a surplus in the primary balance by 2020. To accomplish these objectives, it is essential to move forward on the three-in-one reforms of implementing the government's growth strategy, cutting government expenditures, and increasing government revenues.

(1) Steady Implementation of the Growth Strategy

(a) Creating Mechanisms to Ensure Implementation of the Strategy for Rebirth of Japan

- The government's Strategy for Rebirth of Japan must be steadily implemented to ensure economic growth. To achieve this purpose, the politicians, bureaucrats, and the private sector must work together to create the necessary systems and mechanisms for the following: utilization of private-sector vitality and finance; fostering startup businesses to support the development of new industries and new businesses; promoting packaged infrastructure exports to boost domestic economic growth by contributing to the development of Asian and other emerging economies as well as the world; promoting the global expansion of Japan's service industries; and, promoting TPP and other economic partnership agreements.
- To ensure steady implementation of the Strategy for Rebirth of Japan, fundamental reforms must be undertaken to change the existing mechanisms of vertical segregation and compartmentalization of government ministries and agencies (add-on approach to policy planning and formulation and budget allocation and execution). As the first step, the coordination and command functions of the National Policy Unit of the Cabinet Secretariat must be enhanced, and systems must be developed allowing the application of a more business-like mentality for the achievement of economic growth.
- In the process of implementing the Strategy for Rebirth of Japan, a thorough effort must be made to regularly repeat the PDCA cycle based on an established timetable. The pace of progress and policy impact must be continuously verified, and speedy adjustments must be made in order to cope with problems that are identified.

(b) Accelerating and Ensuring the Fruits of Regulatory Reform

- Given Japan's fiscal constraints, regulatory reform stands as one of the key pillars of the growth strategy. In light of its importance, politicians, bureaucrats and the private sector must cooperate in developing mechanisms that will facilitate regulatory reform

and maximize its impact. Measures to be taken in the immediate future include the following. First, the National Policy Unit must identify target areas for regulatory reform that can be expected to have an important positive impact on growth. Second, the powers and functions of the Government Revitalization Unit's Committee on Regulatory and System Reform should be enhanced. Third, a forum should be established where businesses facing regulatory bottlenecks obstructing the creation of new industries and new businesses can appeal for the easing of regulations in a fully transparent environment.

- In the future, a Basic Law on Regulatory Reform (provisional name) should be enacted and a new organization should be created with the power to conduct investigations and issue recommendations on all types of regulations under the jurisdiction of various government ministries and agencies.
- The comprehensive special economic zone system should be utilized to achieve breakthroughs in promoting regulatory reform. To achieve this purpose, it is essential to implement bold programs for regulatory reform in areas where heightened impact can be expected. It is similarly important to ensure that preferential tax arrangements are sufficiently attractive to be internationally competitive. Furthermore, regulatory reforms that prove to be successful should be adopted on a nationwide basis.

(c) Clearheaded Discussion on and Response to Energy Policies with an Eye to Cost and Time Frame

- Discussions on and response to energy policies must take into account the requirements of stable supply, environmental feasibility, economic efficiency, and safety, and must be conducted in a clearheaded manner based on a realistic view of cost and time frame.
- Over the medium to long term, it is desirable to reduce Japan's dependence on nuclear power to a certain level through a steady policy of nuclear power reduction while promoting renewable energy sources and energy conservation measures.
- In light of growing global demand for energy and ongoing construction of nuclear power plants in neighboring countries, effort should be made at the same time to maintain nuclear power technologies and expertise, and to promote research and development for the achievement of more advanced safety technologies and the development of safer nuclear power facilities. Targets for future levels of dependence on nuclear power in total electric power generation should be approached with due flexibility, while taking into account possibilities for future technological developments.

- A fixed tariff system for the purchase of electric power has been introduced to promote renewable energy sources. However, by international comparison, the tariff rate is particularly high for power generated in mega-solar facilities. This can be expected to have a serious impact on the Japanese economy and the lives of the people. Lessons learned from the failures of other countries and international standards for necessary amounts of capital investment should be carefully examined in order to rectify the current system and tariff rates as soon as possible.

(2) Reducing Government Expenditures through Strict Adherence to the Pay-As-You-Go Principle

- In light of Japan's extremely serious fiscal conditions, strict adherence to the pay-as-you-go principle—namely, any measure that would create new expenditures must be backed by the necessary financial resources—is a necessary part of efforts to reduce government expenditures.
- Programs for reconstruction and growth have generating increased demands on fiscal resources in such areas as earthquake recovery and reconstruction, repair and maintenance of existing infrastructure, increasing the resilience and robustness of the national land, and funding R&D investments in growth sectors. In light of this fact, a scrap-and-build approach should be taken whenever establishing new policy objectives or allocating budgets to new areas.

(3) Fundamental Tax Reform for a Simple and Growth-Oriented Tax System That Boosts Revenues

- Japan is transitioning from an age of income redistribution to an age of burden redistribution. From the perspective of achieving economic growth, the following structural changes should be made to achieve a pattern of tax burdens (government revenue) that corresponds to contemporary requirements.
 - (a) Establish a balance between benefits and burdens that is conducive to energizing working-age generations
 - Deferred taxation or significant reduction in tax rates on living bequests
 - (b) Improving locational competitiveness by rectifying the direct-to-indirect tax ratio.
 - Lower effective corporate tax rate to 25 percent
 - Raise consumption tax rate to 17 percent (of which, 10 percent earmarked for pensions)
 - (c) Reform local tax grant system to establish local autonomy

- The next step to be taken after raising the consumption tax rate to 10 percent should be indicated without delay, and appropriate adjustments for low-income households should be finalized and implemented. To achieve greater efficiency in government administration and management of social security systems, laws for the introduction of national identification numbers should be enacted as soon as possible to enable introduction of an operational system by fiscal 2015. A single-rate consumption tax system should be maintained, while adopting a system combining tax exemptions and grants to cope with the problem of regressive taxation.

(4) Discussions of the National Conference on Social Security System Reform Should Be Geared toward Conclusions Conducive to Truly Sustainable System Reform

- Social security expenditures account for a large part of total government spending. In light of this fact, the National Conference on Social Security System Reform that is scheduled to be formed should focus its discussions on establishing a balance between benefits and burdens that will lead to a truly sustainable social security system. This would require the National Conference on Social Security System Reform to reach concrete conclusions on the following points.
 - (a) Establishing a new basic pension system funded by earmarked consumption taxes
 - (b) Reforming the health care system for elderly persons 75 years and older to be 70 percent tax-financed and 30 percent self-paid
 - (c) Achieving efficiency in benefit payments by linking national identification numbers to the social security system
 - (d) Suppressing social security benefit payments through macro caps (economic growth rate, percentage of elderly population)

4. Toward the Politics of Decision and Action

- While Japan is faced with extremely important choices and decisions for the future, the deadlock in national politics has caused serious delays in policy decisions and implementation. This in turn has created a grave situation that threatens to undermine critical national interests. The House of Representatives will be dissolved and a general election held no later than one year from now. Regardless of who takes the reigns of power after the election, the new administration must be changed to one that adheres to the politics of decision and action.
- In order to advance toward the politics of decision and action, the major political parties, consisting of the Democratic Party of Japan as the ruling party and the Liberal

Democratic Party and the New Komeito as the leading opposition parties, must take speedy action for instituting certain reforms before the general election is held. Specifically, as responsible political parties, the major ruling and opposition parties must come to an agreement on rules that govern how the Diet operates, how policy decisions are made, and on matters related to the governance of political parties.

- On its part, Keizai Doyukai will work with Japan Akademeia comprising opinion leaders from various quarters of society to actively formulate proposals and to take action on political reform from a neutral position.

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