



**Our Hopes for the New Administration
—Achieving Economic Growth and Rebuilding National Management—**

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1. Toward a Decision and Action Oriented Political System

The general election of December 16 mandated the launch of a new administration in Japan.

During the coming year, newly elected leaders will be taking the helm of the state in various other countries, such as the United States, China, and South Korea.

In the United States, the problem of the fiscal cliff is being sorted out, while Europe now appears to have found its bearings for extricating itself from the fiscal crisis. Although there are downward risks including the economic slowdown in China, the world economy on the whole is on the path to a mild recovery.

Japan is now the only major economy whose GDP has yet to return to its pre-Lehman crisis level. As such, the cost of postponing and avoiding fundamental and essential reforms that entail substantial pain stands more clearly visible than ever before. Today, Japan stands at a critical crossroads that will determine whether it will be able to overcome its current crisis and experience rebirth as a reenergized nation.

We earnestly hope that the next prime minister will make an unwavering commitment to realizing the rebirth of Japan and that he will stand firm in his determination to exercise strong leadership in prioritizing the long list of critical issues facing the nation and in steadily implementing the necessary policies in a strategic and systematic manner.

First, a basic philosophy and vision for the future of Japan as well as concrete policies and a roadmap for achieving them should be announced at the earliest possible date. Of particular importance is the formulation of a master plan and action program for economic growth and fiscal reconstruction, and the establishment of systems and mechanisms for their implementation. Aimed at leading the nation out of the structural stagnation that has resulted in the so-called lost two decades following the collapse of the bubble economy, this master plan and action program should be finalized and mechanisms set up

during the first half of 2013. As the next step, we hope that implementation of the following growth strategies will be started in earnest during the second half of the year: formulation of a concrete plan for lowering the effective corporate tax rate, furtherance of regulatory and institutional reform, creation of new industries, promotion of innovation, and establishment of a cooperative framework among the political, bureaucratic, and private sector communities for promoting Asian economic growth and capturing related demand.

Second, a series of actions aimed at bolstering policy formation and implementation under Cabinet leadership should be taken. These include placement of the Council on Economic and Fiscal Policy under the aegis of the Cabinet Secretariat, and clarification of its role as the command post for unified and comprehensive policy formulation, coordination, and implementation in areas related to the economy and fiscal affairs. As a step to be taken immediately, we call for a review of the policies for the fiscal 2012 supplementary budget and the fiscal 2013 budget. Furthermore, it should be borne in mind that Japan has made an international commitment in the G20 to achieve a surplus in its primary balance by fiscal 2020. Given this commitment, it is essential for the Council on Economic and Fiscal Policy to formulate basic policies on economic and fiscal management for formal approval by the Cabinet.

Third, fundamental reforms should be introduced to politics and administration, the root cause of the repeated postponement of decisions on crucial policies and reforms. In order to effectively address the fundamental problems of the nation and to create flexible and transparent political, administrative, economic, and social systems capable of coping with a diverse range of complex challenges, bold and determined steps must be taken toward regulatory and institutional reforms that leave no sanctuaries exempted. Similarly, administrative reforms aimed at eliminating bureaucratic compartmentalization and administrative centralization must be pursued in earnest.

2. Achievement of Economic Growth and Path to Fiscal Soundness

(1) Toward Achievement of Private Sector–Led Economic Growth: End to Procrastination and Return to Decision Making and Uninterrupted Implementation

During the 17 years since 1996, the government has formulated and announced a total of eight growth strategies. In the process, all available measures have already been fully examined and discussed. What is needed now is the determination and commitment to action that will result in the implementation of growth strategies entailing fundamental and essential regulatory and institutional reforms that have been avoided by previous administrations. Without this determination and commitment to action, economic growth cannot be achieved, and any growth strategy will be a mere rehashing of measures listed in past prescriptions for growth.

To achieve private sector–led sustained economic growth, regulatory and institutional reforms that leave no sanctuaries exempted must be implemented and bold steps must be taken toward administrative reform for eliminating the compartmentalization of government ministries and agencies and administrative centralization. By implementing such changes, an environment conducive to the maximum exercise of the market mechanism and private sector initiative must be developed. Parallel to this, political power, tax revenue sources, and human resources must be transferred from the national to local governments to foster a sound spirit of self-reliance. ASEAN and other emerging countries are now finally beginning to experience full-fledged growth. By strengthening cooperation among politicians, bureaucrats, and the private sector, it will be possible to contribute to increases in economic growth and standards of living in these countries and to utilize the fruits of such improvements to stimulate demand in Japan.

A clear timetable should be established for economic growth strategies. Furthermore, these strategies must be implemented in a comprehensive, integrated, and uninterrupted manner that does not leave any periods of policy void.

Short-term objectives should include the following. First, Japan should announce its intention to join the Trans-Pacific Partnership (TPP) negotiations at an early date. Policies should be adopted for accelerating free trade agreements (FTAs) and economic partnership agreements (EPAs) with East Asian countries and for strengthening infrastructure exports and promoting exports of technology-based products and creative content. Japan must develop new industrial models for coping with global issues. Regarding the challenges of reconstruction from the Great East Japan Earthquake and revitalization of regional communities, efforts must be made to promote new models for the creation of national wealth through such initiatives as the transfer of political power, tax revenue sources, and human resources and the utilization of special economic zones.

Over the medium to long term, initiatives to be undertaken should include policies to counter the downward trend in birthrates and shrinking population to stimulate the expansion of Japan’s workforce, and labor market reforms to promote the more extensive workforce participation of women, the elderly, and highly skilled foreign workers. Policies must also be implemented to increase capital investment in Japan. These would include measures aimed at increasing foreign investment in Japan by lowering the effective corporate tax rate and the provision of incentives by special economic zones (reduction and exemption of corporate and income taxes and other tax incentives) that would bolster Japan’s locational competitiveness. To increase investment, Japan must also act to improve productivity through the creation of new industries and innovation in the service industries. Japan also faces a pressing need to ensure a steady supply of electric power over the short to medium term. To achieve this objective, a roadmap for restarting the nation’s nuclear power plants must be presented and a new Basic Energy Plan reflecting technological innovations and other developments must be formulated as soon as possible.

The Japanese economy cannot achieve sustained growth without regulatory and institutional reform. In this context, areas with high growth potential, such as medical services, welfare, education, tourism, agriculture, environment, and energy, should be prioritized for the implementation of thorough regulatory and institutional reform.

Investments in public works have been significantly reduced since fiscal 2001. However, in light of the aging of infrastructure dating back to the period of Japan's rapid economic growth and the disaster-prevention requirements that have emerged after the Great East Japan Earthquake, the time has come to reconsider this policy. Going forward, investment should be increased, after clearly identifying specific strategic areas, in such fields as technologies related to the environment/energy, information, and the enhancement of industrial strength; infrastructure for enhancing urban functions and other innovation; and public goods that help mitigate natural disasters and enhance the safety and security of society. Such investments must be predicated on adherence to strict fiscal discipline and a commitment to the creation of future wealth.

From the perspective of creating a unified base for authority, budget, and human resources for pursuing regulatory and institutional reform, science and technology policies, comprehensive marine policies, promotion of infrastructure system exports, and medical innovations, it is absolutely essential to establish a comprehensive and integrated organization that link together government ministries and agencies which each function as a hub for their related policies and measures. For example, a Japanese version of the US National Institutes of Health could be created for the promotion of life sciences. Such an organization would serve to bridge government ministries, businesses, universities, and research institutions and would facilitate cooperation and coordination among these sectors. Furthermore, it would be authorized to undertake the unified disbursement of the related budgets of various ministries and agencies, and would be able to effectively implement measures through the concentration of authority and human resources. The realization of such measures would facilitate the intake of highly skilled professionals from abroad and would also contribute to Japan's internal globalization.

Breaking out of deflation and correcting the overvaluation of the yen constitute vital elements in Japan's economic revitalization. In addition to moving powerfully forward on growth strategies for generating demand, in order to enhance the impact of monetary easing under conditions of low interest rates, the government must cooperate closely with the Bank of Japan even while respecting the Bank's independence. To support the competitive position of Japanese companies, it will also be important for the government to pursue exchange rate related diplomatic initiatives with China and South Korea. Finally, for the achievement of sustained economic growth, it is absolutely essential to maintain fiscal discipline and to win and maintain the confidence of markets.

(2) Concrete Roadmap for Fiscal Soundness: Not Burdening Future Generations

Japan continues on the path to fiscal deterioration with public debt now exceeding 200 percent of GDP (236 percent as of end of 2012), making it the worst among all advanced countries. There is no doubt that the parallel achievement of economic growth and fiscal soundness constitutes an extremely urgent requirement for revitalizing Japan. The new administration should act swiftly to formulate basic policies for economic and fiscal management aimed at promoting fiscal soundness. Thereafter, these basic policies should serve as a template for enacting a law for fiscal soundness that includes clearly defined goals for the achievement of primary balance. Even when undertaking temporary fiscal actions to stimulate the economy, the government must abide by the overarching principle of maintaining medium- to long-term fiscal reconstruction policies. This would involve a prioritization of expenditures combined with a commitment to greater efficiency in spending to prevent fiscal bloating to the greatest possible extent. It would also require rigorous verification of the impact of fiscal actions.

In the comprehensive reform of social security and taxation systems, the acquisition of additional fiscal resources through the introduction of higher consumption tax rates has moved forward while the fundamental reform of social security systems has lagged behind. Given that social security related expenditures constitute the single largest segment of government spending, the suppression of such expenditures is an absolute requirement for the achievement of fiscal soundness. This requirement underscores the urgency of social security reform. Regarding the government's National Council on Social Security System Reform that began its deliberations last month, we hope that its discussions will reach a conclusion and decisions will be made by August 2013 as originally scheduled. These conclusions should directly address the following objectives: establishment of comprehensive systemic design ensuring the viability of pensions, health care, and nursing care programs under the conditions of a shrinking population and an aging society, and the development of sustainable systems based on individual self-help ensuring inter- and intra-generational fairness in the distribution of costs and benefits.

Parallel to measures aimed at the achievement of fiscal soundness, the government must act urgently to undertake fundamental reforms in the tax system. This would involve the formulation and presentation of clearly defined principles of taxation in the new society, followed by the formulation of definite conclusions on the systematic organization and design of the three core taxes consisting of income tax, corporate tax, and the consumption tax.

3. Rebuilding the Systems of National Management: Restarting the Processes of Political and Administrative Reforms

Parallel to the revitalization of parliamentary management aimed at achieving “politics capable of decision making,” the *raison d’être* of the legislative branch of government will be brought into question unless speedy action is taken to rectify the disparity in the weight of votes, which has been determined by the Supreme Court to be in a state of unconstitutionality. Legislation to reform the House of Representatives electoral system to rectify vote disparity was enacted immediately before the general election. Acting on the new law, the Council on the House of Representatives Electoral Districts has already started work on reapportionment. While it is regrettable that the recent general election was undertaken amid a “state of unconstitutionality,” we hope that the disparities will be rectified without delay. Moreover, we hope that this will provide impetus for speedily rectifying the current disparities in the House of Councillors, for which the election of July 2010 has been judged by the Supreme Court to be in a “state of unconstitutionality.” The 9th Election System Council should be established in 2013 and launch, at long last, discussions on the institutional design of elections for both houses of the Diet. Participants in these discussions should go beyond politicians who will be directly affected by the outcome of the deliberations to include people from various quarters of society. Furthermore, it must be remembered that the agreement reached among the Democratic Party of Japan, the Liberal Democratic Party, and the New Komeito also includes a promise to reduce the number of Diet seats. This commitment must definitely be upheld and realized.

We ask the new administration to embark with unwavering determination on the process of administrative reform centered on rectifying administrative centralization and the compartmentalization of government ministries and agencies. Essential reforms cannot be realized and effective policies cannot be implemented so long as the fundamental problem of administrative compartmentalization is left unattended. A review of growth strategies and the progress made in reconstruction from the Great East Japan Earthquake clearly points to growing delays in the execution of policies and an increase in budgetary waste. Given the urgency of the task of recovery from the earthquake, we believe the government should adopt mechanisms for effective and efficient implementation of an integrated set of policies. For this purpose, the Reconstruction Agency should be empowered to exercise comprehensive management and control over all reconstruction related budgets and should also be authorized to execute and supervise spending.

Parallel to strengthening the powers and functions of the Cabinet, we call for the speedy formulation of legislation for a Basic Law on Reform (Program Law) aimed at steadily promoting administrative reforms and national public officers system reforms that include in their objectives the reorganization of government ministries and agencies aimed at facilitating comprehensive and integrated implementation of government policies.

Furthermore, the new administration should promote reforms for decentralization of political power, including the possibility of adopting a new regional administrative system (*doshu-sei*) conducive to local autonomy, in an effort to build new relations between the central and local governments centered on the principles of autonomy and equality that would replace the current system of codependence. As the first step, the current process of reorganizing the local branch offices of the national government should be accelerated. Moreover, in order to strengthen and enhance the basic unit of local government, concrete measures and detailed timetables should be formulated for the transfer of political power, tax revenue sources, and human resources from the national to local governments with an eye to create mechanisms for regional self-determination. As local allocation tax reforms and fundamental reform of local taxes will be of special importance throughout this process, immediate steps should be taken to create a deliberative framework for considering these matters in tandem with a comprehensive vision for tax reform.

4. Active Promotion of Foreign Policy and National Security Policy

Japan must be aware that it stands at a critical crossroads in its foreign and national security policies. Given the rise of Brazil, Russia, India, China, South Africa, and other emerging countries, the United States is experiencing a relative decline in power. This is generating changes in the international environment that in turn are impacting Japan's national security environment. With this awareness in mind, it is now necessary to redefine Japan's foreign and national security policies and the Japan-US alliance. In particular, to maintain peace and prosperity in the Asia-Pacific region, efforts should be made to strengthen relations with ASEAN, including contributing to the alleviation of regional disparities within ASEAN, and developing a diverse range of channels for promoting exchange with such countries as China, South Korea, and Russia with which Japan has unresolved historical issues, and to continue dialogue predicated on the expansion of mutually beneficial economic relations. It is also our hope that the new administration will launch initiatives from medium- to long-term perspectives toward concluding a peace treaty with Russia and achieving a peaceful resolution to the problem of the Northern Territories.

Attention should be paid to relations with African nations now being considered to be important growth markets for the future. The Fifth Tokyo International Conference on African Development (TICAD V) to be held in 2013 under the leadership of Japan should be used as an opportunity to present a vision for African development in the coming five years from the novel perspective of development of the private sector in Africa, including the consideration of forms of development assistance that would facilitate human resources development and "private sector to private sector" cooperation.

These constitute our hopes and expectations for the new administration. In the future, the government will increasingly be playing the role of redistributing

burdens. In this role, the government inevitably will have to pursue reforms that are accompanied by pain and social friction. Therefore, the government must ensure due transparency and openness in processes related to the formulation and adoption of policies. At the same time, the government will be called on to provide the people with thorough and easy-to-understand explanations of its decisions. Thus, strong political leadership will be needed for the government to make an appeal to all members of society concerning the pain and severity of the reform process and win the understanding and support of the public.

On our part, as corporate executives, we are prepared to take risks and to boldly pursue innovations for creating new markets and new businesses, and as members of society, we are resolutely committed to achieving the revitalization of Japan.

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<Attachment> Policies to Be Implemented by the New Administration

I. Achieving Economic Growth

For the realization of economic growth, available measures include those that can be expected to show positive results in a relatively short period of time and those that will require considerable time to reach fruition. The former category includes efforts to benefit from the relatively high rate of growth maintained by emerging countries and others amid the sluggishness and low rates of economic growth in developed countries and investments in reconstruction from the Great East Japan Earthquake. The latter category includes policies designed to increase capital investment, such as measures aimed at maintaining and expanding the workforce and increasing incoming foreign investment, and policies for improving productivity through innovation. The government must strategically formulate and implement policies for regulatory and institutional reform and education and human resources development related to all of these policies and measures.

- (1) Open country and develop competitive conditions for success in global economy
 - [1] Immediately announce intent to join TPP negotiations
 - [2] Add momentum to promotion of FTAs/EPAs, including Japan-China-Korea FTA
 - [3] Fundamentally strengthen framework for government and private sector cooperation to promote export of infrastructure systems
 - [4] Develop competitive investment environment by lowering effective corporate tax rate to 25 percent
- (2) Promote industrial renewal and creation of new industries and businesses
 - [1] Achieve regulatory and institutional reform with no sanctuaries exempted that contributes to economic growth
 - [2] Establish special economic zones with fully developed environment for supporting entrepreneurial activities and creating startups
 - [3] Promote circulation of growth capital by creating investment vehicles for utilizing individual financial assets
 - [4] Abolish Act on Temporary Measures to Facilitate Financing for Small and Medium-Sized Enterprise, Etc. at termination of its term at end of fiscal 2012
- (3) In line with fiscal reconstruction policies, appropriately implement budget to prevent economic recovery from stalling
 - [1] Immediately finalize fiscal 2012 supplementary budget
 - [2] Finalize fiscal 2013 budget before end of fiscal 2012
- (4) Create executive organization to be responsible for ensuring growth strategy produces results

- [1] Clearly define authority of ministers responsible for implementation and position of command post
- [2] Establish plan-do-check-act cycle by forming team responsible for monitoring progress and verifying results
- [3] To deal with issues crossing ministerial lines, create framework for centralized budget and authority

II. Review and Revision of Environmental and Energy Policies

- (1) Achieve green growth by accelerating technological innovation in generation, storage, and saving of energy and harnessing of heat energy
 - [1] Establish concrete roadmap (measures and timetable) for achieving green growth
 - [2] Promote energy-saving homes and buildings and smart-grid society
 - [3] Promote reform of electric power systems
 - [4] Rectify current feed-in tariff system for renewable energy
- (2) Restart nuclear power plants and formulate new Basic Energy Plan
 - [1] Restart nuclear plants whose safety has been confirmed in line with new safety regulations of Nuclear Regulation Authority
 - [2] Maintain nuclear power technologies and human resources and continue to make global contributions
 - [3] Formulate flexible new Basic Energy Plan that takes technological innovation into consideration
- (3) Revise goals for reducing greenhouse gases and promote emissions reduction
 - [1] Review international pledges in line with new Basic Energy Plan
 - [2] Continue voluntary reductions efforts under Kyoto Protocol's second commitment period (2013–2020)
 - [3] Promote bilateral offset credit mechanism with multiple countries

III. Fiscal Reconstruction and Comprehensive Reform of Social Security and Taxation Systems

- (1) Implement reforms for sustainable fiscal system
 - [1] Present new goals for fiscal discipline and concrete measures and timetable for fiscal soundness
 - [2] Clearly define goals for national burden rate (costs and benefits)
 - [3] Achieve balance between costs and benefits to promote revitalization of working generation
 - [4] Abide by pay-as-you-go principle (no additional expenditures without additional revenue) to vigorously pursue expenditure reduction
- (2) Implement tax reforms to support fully energized economy and society
 - [1] Rectify ratio of direct to indirect taxes

- [2] Bolster locational competitiveness by lowering effective corporate tax rate
 - [3] Reform local allocation tax system to promote and establish local sovereignty
 - [4] Steadily raise consumption tax rate to 10 percent
- (3) Social security reform
- [1] Pensions: Create new basic pension system based on earmarked consumption tax revenues
 - [2] Medical care: Implement at an early date fundamental reforms for raising co-payment to 20 percent for persons aged 70–74, and in principle to 70 percent tax and 30 percent co-payment for persons 75 and above
 - [3] Nursing care: Implement fundamental reforms to raise co-payment to 20 percent and exclude persons certified as needing Category 1 and 2 support and needing Category 1 nursing care from eligibility for benefits
 - [4] Social security payments: Adopt macro-caps (economic growth and aging of society) to restrain growth of payments
- (4) Early introduction of social security and tax number system
- [1] Minimize revision of existing systems and create unified design for national and local governments
 - [2] Disclose estimated cost of system without delay and open up process of examining technical specifications
 - [3] Early utilization in medical field

IV. Rebuilding National Management (Governance System)

- (1) Political reform
- [1] Diet reform for “politics capable of decision making”
 - [2] Rectify disparity in weight of votes in both houses and reduce number of Diet seats at early date
 - [3] Establish 9th Election System Council at early date
- (2) Administrative reform
- [1] Bolster Cabinet functions to strengthen policy formulation and implementation systems
 - [2] Establish National Strategy Headquarters (provisional name; reorganize and bolster existing functions of Cabinet Secretariat), and place National Security Council and Council on Economic and Fiscal Policy under aegis of National Strategy Headquarters
 - [3] Review operations and organization of government administration in line with reorganization of ministries and agencies
 - [4] Implement reforms in line with Basic Act on Reform of National Public Officers’ Systems
 - Centralized personnel management of executive officers by Cabinet and introduction of merit-based pay system
 - Grant fundamental labor rights to civil servants and promote personnel exchange between government and private sector

- (3) Promote local autonomy and revitalization toward introduction of local autonomy based on new regional administrative system (*doshu-sei*)
 - [1] Present timetable and basic system design for early enactment of Basic Law for *Doshu-sei* leading to adoption of *doshu-sei*
 - [2] Strengthen powers of basic unit of local government (delegation of authority and parallel transfer of human resources, and easing of mandatory and framework regulations), and immediately implement recommendations of Council for Decentralization Reform
 - [3] Bolster fiscal foundation of local government by transferring tax revenue sources from national to local governments and reforming local allocation tax system
 - [4] Reform local branch offices of national government and reorganize wide-area governments and basic units of local government with introduction of *doshu-sei* in mind

V. Foreign Affairs, National Security, and International Relations

- (1) Foreign affairs, national security, and international relations
 - [1] Redefine national security policies and Japan-US alliance
 - [2] Strengthen Japan-US alliance and Japan's defense capabilities to maintain security in East Asia
 - [3] Continue dialogue with countries with which Japan has unresolved historical issues, by basing dialogue on furthering mutually beneficial economic relations and on exchange using diverse channels
 - [4] Launch initiatives from medium- to long-term perspective toward concluding peace treaty with Russia and achieving peaceful resolution to Northern Territories issue
 - [5] Present policies for strengthening Japan-ASEAN relations, including measures contributing to alleviation of regional disparities in ASEAN
 - [6] Use TICAD V (June 2013) as opportunity to implement forms of development assistance conducive to human resources development and "private sector to private sector" cooperation in Africa.

VI. Accelerate Post-Earthquake Reconstruction

- (1) Strengthen and concentrate authority in Reconstruction Agency: address challenge of reconstruction as national emergency
 - [1] Place reconstruction budget under centralized control of Reconstruction Agency, and assign executive and supervisory authorities to Agency
 - [2] Appoint government official with authority equivalent to vice prime minister to post of Minister of Reconstruction
 - [3] Relocate Reconstruction Agency to area affected by disaster
- (2) Formulate vision for wide-area reconstruction
 - [1] Formulate vision for reconstruction that transcends administrative units

[2] Consolidate similar plans pursued by neighboring municipalities

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