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**Fiscal 2015 (30th) Summer Seminar
Tohoku Appeal 2015
Toward a Sustainable Society**

No future can be born unless we break with convention. By 2020, Japan must be on course for resolving its long-term challenges that include fiscal reconstruction, regional revitalization, and the aging of society. Corporate executives must uproot the obstructive bedrock existing in their own minds and pursue dramatic improvements in productivity and the realization of new corporate management and a new society.

1. Dramatic improvement of productivity through management reform and innovation

- Japan's corporate capital efficiency is low by international comparison and must be raised to the level of the global companies of Europe and the United States. To achieve this, profitability must be improved. First, corporate governance must be strengthened in ways that promote exit from unprofitable businesses and the concentration of management resources in core businesses.
- Second, globalization and digitalization must be utilized to increase corporate competitiveness and to make this an engine of growth for the Japanese economy. For this purpose, the measures such as the following need to be taken: (a) the acceleration of R&D investment in next-generation technologies, (b) the promotion of diversity, (c) the recruitment and fostering of highly skilled professionals, and (d) the development of more flexible and diverse working styles.
- The ability to focus on medium- and long-term goals is one of the strengths of the Japanese style of management. Companies must explain this to shareholders and investors and convince them that the longer-term perspective contributes to increasing corporate value. As part of this explanation, companies must visualize their initiatives for enhancing nonfinancial assets. This includes the accumulation of human and intellectual capital and responses to environmental protection requirements.
- Effective measures must be taken to make Japan the spawning grounds for many innovations. For this purpose, open innovation-based R&D taxation and cross-appointment systems should be adopted to maximize the flow of research funds from companies to universities and to actively promote personnel exchange between the business and academic communities. In addition, efforts must be made to obtain cutting-edge

technologies by promoting partnerships with start-ups in Japan and throughout the world.

- Innovation led by the private sector must be accelerated by mobilizing the necessary funds, human resources, and ideas through cooperation among industry, government, and academia. Efforts must be made through these initiatives to significantly improve productivity and to establish Japan's innovation ecosystem.
- The central government must also advance labor market reforms and create an employment environment capable of attracting from both Japan and abroad highly skilled professionals that form the core of the innovation ecosystem. As the first step, we await the early passage of the bills to amend the Worker Dispatching Act and to institute a performance-based pay system for highly skilled professionals. We also look forward to the introduction of a compensation system to prevent unfair dismissal by providing the option of monetary resolution.

2. Reiteration of the need to implement integrated tax and social security reform for a post-2020 society

- Achieving a surplus in the primary balance by fiscal 2020 is no more than a milestone on a long journey. We must start discussing fiscal reconstruction with a focus on 2025, when the baby boomers will reach the age of 75.
- Regarding government revenue, discussions on the national burden rate should be started soon with an eye to promoting economic growth and correcting intra- and inter-generational economic disparity. The following actions should also be taken: (a) the introduction of a tax credit system and the increase of the consumption tax rate to above 10 percent, (b) the expansion of the scope of size-based corporate taxation and the establishment of a concrete roadmap for lowering the effective corporate tax rate to the 20-percent range, and (c) the review of the ratio of tax and insurance premiums in financing social security systems. To make steady progress toward fiscal reconstruction, plans should be based on conservative economic assumptions, and any revenue in excess of initial projections should be firmly committed to paying off government debt.
- Regarding government expenditures, immediate action must be taken to implement the reforms contained in the Plan to Advance Economic and Fiscal Revitalization decided by the Cabinet this June. An expert panel investigation committee to be formed under the Council on Economic and Fiscal Policy should establish key performance indicators reflecting goals for cutting expenditures, formulate a reform process, and create a framework for managing the progress.

- Regarding social security, it is crucial to restrain medical and long-term care expenditures and to improve efficiency by utilizing information technologies, including telemedicine. Introduction of the My Number (social security and tax number) System will improve the coverage of income and assets, and is absolutely essential for redistribution to function properly. Local governments and businesses should speed their preparations so that the system can go into operation in January 2016 as scheduled. The usability of the system can be improved by integrating medical and long-term care data into the system and promoting private-sector use. This will speed the diffusion of the system and improve competitiveness. For this reason, we hope the bill to amend the My Number Act submitted to the current session of the Diet will be passed as soon as possible.
- We support employee health management and practice health monitoring for improving labor productivity. We will contribute to restraining medical and long-term care expenditures by promoting the mutual exchange of related expertise among businesses.

3. Engagement of private and public sectors in creating foundations for revitalizing regional economies

- To create local economies that are diverse and full of vitality, a new flow of human resources must be generated through cross-boundary collaboration between industry, government, and academia. In creating sustainable structures for their economies, local governments should not depend on grants from the central government. Instead, they should formulate their own comprehensive strategies that include effective measures for releasing the full powers of the private sector, such as the utilization of PPP/PFI projects.
- When allocating new types of grants to local governments, the central government should clearly explain its screening process and criteria. In making its selections, it should give preference to local governments that have formulated comprehensive strategies and shown positive results. The central government should also take concrete actions such as the following so that the commitment to local revitalization does not end as a temporary policy: (a) the strengthening of municipalities through the replication of large-scale municipal amalgamations promoted by the government between 1999 and 2009), (b) fiscal and taxation reforms of local governments with the transfer of tax revenue sources and local tax grants as its two main pillars, (c) the revision of the City Planning Act to promote compact urban design (collective housing) and investment in outlying towns and cities, (d) the reform of local universities, technical colleges, and vocational high schools to develop human resources needed to support the local industrial base, (e) the enhancement of the National Strategic Special Zone System, and (f) the relocation of government agencies and organizations to outlying areas.

- Human resources are the key to successful local revitalization. Keizai Doyukai will cooperate with its local counterparts in promoting personnel support and exchange to improve the management capabilities of local businesses and to create attractive employment opportunities. We will also urge companies to contribute to local development by expanding the recruitment of region-specific employees and maintaining and strengthening their local bases.

4. Rebuilding of disaster-affected areas as models for regional revitalization

- The disaster-affected areas of Iwate, Miyagi, and Fukushima Prefectures are continuing to experience population decline. To rebuild these areas, the idea of returning to pre-earthquake conditions should be discarded. Instead, municipal amalgamation and regional collaboration should be pushed forward. To promote regional collaboration, reconstruction grants should stipulate the consolidation of residential areas, the encouragement of business tie-ups in such areas as industrial promotion and medical services, and joint development of facilities.
- The revitalization of areas where evacuation orders have been lifted depends on the return of residents. In addition to this, it is necessary to promote the formation of communities of a certain size by building new facilities and concentrating the housing for employees of businesses newly entering the area. Implementation of the future vision for 12 municipalities in Fukushima to be announced this summer should not be bound by existing municipal boundaries. Instead, basic concepts for the development of new communities should be formulated with the goal of creating industrial and residential clusters.
- The Innovation Coast Concept has been proposed by Fukushima Prefecture for the development of research and other facilities related to decommissioning the Fukushima Daiichi Nuclear Power Station. We look forward to the acceleration of this plan as a step toward creating the industries needed to support new communities.
- Keizai Doyukai will continue to support local governments and businesses serving as models for regional revitalization by accepting trainees and dispatching human resources. We will also remain committed to encouraging businesses to organize such events as direct-from-producer markets for their employees to eliminate economic damage from misinformation and prevent the fading of the memory of the Great East Japan Earthquake.

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