

What We Expect from New Government

Economic and Fiscal Management for Structural Transformation of Japanese Economy

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The result of the 50th Lower House general election on October 27 has made it clear that the distrust of the public in politics had not been removed yet, due to the political funding issue. Meanwhile, Japanese economy has now made a remarkable shift from deflation of more than 20 years to inflation, giving a once-in-a-lifetime chance to press ahead with reform to a new economy and society. However, the country is facing mounting challenges like labor shortages, declining fiscal and social security sustainability, and higher tensions in national security.

Amid these challenges, we request Prime Minister Ishiba's new cabinet to take on, first of all, quick and far-reaching solutions to the political funding issue to recover the trust of the public in politics. At the same time, the ruling and opposition parties must share a sense of urgency that we can spare no more time before transforming our economy and solving challenges we face, thereby setting about discussions on major policy measures without paralysis of the national political process. Such discussions must also have a medium- to long-term view, facing an inconvenient truth to the public head-on, and prevent populist policies that lead to fiscal expansion. We request the new cabinet to demonstrate its political leadership in initiating the reforms in this regard.

1. Realization of national vision that promotes the well-being of the public

What we need now is a national vision that promotes the well-being of the public, as well as the policy measures that make it possible. We consider that the promotion of the well-being of the public constantly increases the disposable income of the people as well as the revenue of the regional community, while allowing them to work lively regardless of age and keep engagement with the local community.

For this to happen, transformation to private-sector-driven economy is indispensable, and we must recover economic dynamism.

2. Economic and fiscal management toward transformation to private-sector-driven economy

The cabinet preceding Prime Minister Ishiba's dealt with Integrated Three-Pronged Labor Market Reforms¹, restart of nuclear power plants when the Nuclear Regulation Authority confirms safety of their

¹ Supporting skill improvements through re-skilling, introducing job-based wages according to the actual conditions of individual companies, and facilitating the transfer of labor to growth fields

operations, and regional vitalization triggered by investment to strengthen economic security (e.g. invitation of semi-conductor plants). The new cabinet should accelerate the pace of these initiatives already in place and ensure the transformation to private-sector-driven economy.

In the meantime, economic and fiscal management should align with inflation norms. We must stop the excessive reliance on the government spending in the deflationary environment, and break away from the mindset that the government fills the negative GDP gap. With private-sector-driven economy, a norm of wages outpacing the consumer price index should take root, while achieving growth of disposable income. For these objectives, we request the government to implement economic and fiscal management as follows.

(1) Establishment of a system for constant wage hike and response to labor shortages

- Higher predictability of wage hike promotes DX (digital transformation) investment. Meanwhile, it is necessary to have a system for constant wage hike by promoting labor mobility to growth sector companies and those with higher productivity.

A set of policy actions

- Achieve minimum wage of ¥1,500 within three years (national weighted average). Even higher minimum wage should apply to essential workers.
- Continue support for SMEs to pass higher costs to prices and for fair trade. The ratio of passing costs to prices should be raised to the level of Europe and the United States.
- Support skill improvements that contribute to higher productivity and implement measures to incentivize labor mobility to the areas outside big cities and to SMEs/middle-ranking companies.
- Expand safety net for individuals affected by labor mobility, and discontinue political support such as subsidies for companies requested to exit markets due to lack of competitiveness to ensure skilled workers.
- Deliberate coexistence with foreign nationals to promote their engagement, which is necessary for sustainable economic growth.

(2) Energy policies to respond to electricity demand growth and carbon neutrality

- Low-cost, stable energy supply is crucial for industrial competitiveness and wage hike.
- Subsidies for electricity and gas prices, supported by the government's huge fiscal spending, are no way sustainable every time energy prices rise. The government needs to focus on low-cost, stable energy supply, as well as energy saving, once again.
- Reflecting these points, the government must swiftly revise the current Strategic Energy Plan to a more viable one, to ensure non-carbon power sources required for carbon neutrality.

A set of policy actions

- Continue to promote restart of nuclear power plants that clear the safety standards of the Nuclear Regulation Authority. Pursue fact-based presentation for the public aiming at earlier restarts, and promote constant dialogue among residents in plant location and energy consumption areas for their mutual understanding.
- Build up an optimal nuclear power plant portfolio for the next generation from a medium- to long-

term perspective. It must be safety-first and have an overview of whole energy systems for the future.

- On the renewable energy front, consider the measures to maintain the existing assets introduced and adopted since the launch of the Feed-In Tariff System (FIT).
- Renew promotion of development of energy saving technologies with potential technology export overseas in mind.

(3) Regional revitalization amid shrinking population

- The government should promote incoming investment that contributes to robust economic security, further activate inbound tourism via public-private partnerships, and make progress in scaling up agricultural businesses. These are for the purpose of transformation to the economic structure that allows for constant wage hike in the areas outside big cities.
- Meanwhile, cooperation among local governments should take place, so that middle-sized municipalities with population of 300,000 or less—expected to reduce their population at an accelerating pace—will be invigorated.

A set of policy actions

- Double regional revitalization subsidy with efficacy in line with cooperation among local governments.
- Even more support is necessary from the institutional and fiscal aspect for cooperation with remote municipalities by utilizing data.
- As an awareness-raising practice, the head of a local government, local assembly, and citizens are to be requested to provide future forecasts of the region they belong to, thereby pursuing visualization of the agenda.
- Amid labor shortages in the civil service sector, a new corporate system is to be considered to ensure civil and public services.

(4) Fiscal consolidation and institutional design for social security reform

- We request progress in fiscal consolidation that reflects a shift to an inflationary economy.

A set of policy actions

- Aiming to gain maximum effects with limited fiscal space, deploy policy resources to measures with a higher multiplier effect. This is possible by thorough assessment using evidence-based policymaking (EBPM).
- Implement policy measures that promote use of private sector's excess funds, without excessive reliance on the government spending.
- The government must present a grand design of social security reform, which addresses the declining birthrate and aging population, and responds to more active engagement of individuals who wish to work as long as they are healthy.

A set of policy actions

- Aiming for full-fledged solutions for “annual income ceiling” issue, overhaul the enhanced support package and abolish the system for Category 3 insured person.
- In particular, efforts are to be made to increase the disposable income of the working generation by

reducing social insurance premiums. To be more specific, it is necessary to consider curbing the growth of public medical expenses, while reducing the insurance premium burden of the working generation, stemming from the late-stage elderly support subsidy and early-stage elderly payment under the elderly medical service system.

- Discussions must start on reform for fairer tax system. Aiming at a tax system based on the real taxpaying capacity, we request the government to deliberate measures to strictly detect income tax payers, to ensure 'ability-to-pay' principle with higher financial income tax, and to impose tax on assets.

(5) Institutional reform to promote DEI in society

- Awareness by individuals and organizations on DEI (diversity, equity, and inclusion), through corporate efforts, is important for its dissemination in society. Meanwhile, reform of the relevant legal system, which is a social norm, is also necessary. In this regard, we request the early introduction of a selective dual-surname system, to create a society that embraces various family types, where respect for individuals and substantive equality of sexes are underscored.

A set of policy actions

- Revise Article 750 of the Civil Code and introduce a selective dual-surname system that allows the husband and the wife to take the surname of either, at the time of marriage.
- Strengthen awareness-building activities for the system to gain understanding by the public.
- Establish and publicize a roadmap for introducing the system.

3. Press ahead with political reform to recover the trust of the public

(1) Far-reaching solutions to the political funding issue and enhance political party governance

- Visualize spending of political funds

A policy action

- Introduce a system that shows the use of political funds and the size to the public in a comprehensible manner (e.g. online reporting of political fund income and expenditure, abolition of all political fund cash transfers, management of deposits and withdrawals through designated accounts, disclosure of use of policy activity expenses and research, public relations, and accommodation expenses).

- Establish political party governance code and political party act

A policy action

- Set up an internal control system and establish political party governance code that enables highly transparent management of political parties. In tandem with these, establish political party act that stipulates minimum responsibilities to be imposed on political parties.

(2) The Diet reform that enables primary policy deliberations by the ruling and opposition parties

- The Diet reform that enables policy deliberations on primary issues on a long-term horizon is necessary to recover the trust of the public in politics.

A set of policy actions

- Article 7 of the Constitution of Japan stipulates the dissolution of the House of Representatives as an act of the Emperor in matters of state. The conditions of this Article are to be clarified with a certain restriction, enabling the public to judge the rationale of the dissolution.
- Increase frequency of party leader debates and enhance free deliberations of lawmakers, thereby promoting the understanding of the public about the policy content and incentivizing political participation.

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