

What We Expect from New Government

Building Consensus for Transition to New Economy and Society

October 21, 2025

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A new government has launched today, led by Japan's first female prime minister. We hope this will trigger acceleration of diversity in the nation's society and political landscape.

Japan now faces domestic challenges, including declining birthrate, aging society, shrinking population, and resulting deepening labor shortages. At the same time, external pressures are mounting in navigating through increasingly severe national security environment. Thus, we must build consensus to reach fundamental solutions for these challenges. Meanwhile, cost-push inflation and the resulting strain on household livelihoods remain urgent challenges to tackle. We call on the new government to address these immediate concerns in a manner aligned with structural reforms that enhance Japan's medium- to long-term competitiveness.

As multi-party politics gains momentum, ensuring stable governance without social fragmentation is imperative. Achieving this requires robust leadership—capable of forging compromise on policy initiatives within the new coalition framework and driving their effective implementation. Alongside this, we request opposition parties to fulfill their responsibilities by building consensus through policy debates and dialogue, which is grounded in practical, concrete counterproposals.

Reflecting these perspectives, we outline below the priority policy measures the new government should pursue.

1. Effective and adequately funded countermeasures to rising prices

- Uniform tax cuts and blanket cash subsidies as countermeasures to rising prices should be avoided in light of fiscal discipline and sustainability.
- As the supply-demand gap narrows amid rising inflationary pressures, fiscal stimulus packages should be carefully evaluated before implementation. Guided by the principle of wise spending based on EBPM (evidence-based policymaking), it is essential to select effective and adequately funded policy measures, while ensuring prioritization in fiscal management.

2. Deployment of growth strategy that drives economic dynamism

- As labor shortages persist, labor mobility across a broader range of generations must increase to help drive economic dynamism. Competitive companies will attract skilled talent by offering

appealing job opportunities and compensation, thereby fueling further growth. SMEs will enhance their competitiveness through strategic alignments with external corporate partners. On the other hand, companies that have fulfilled their roles will exit the market, contributing to industrial renovation.

- Individuals who remain willing to work—after their companies are driven out of business—should be able to move smoothly to new places for their active roles. To support this, upskilling in areas such as artificial intelligence (AI) should be advanced, thereby strengthening the safety net for workers.
- Surplus funds in the private sector should be channeled into domestic investments. To facilitate this, efforts to improve the investment environment should be promoted for areas such as regulatory reform and deregulation, digital transformation (DX), green transformation (GX), healthcare, ride-hailing, autonomous driving, and data centers.

3. Establishment of inclusive society with foreign human resources

- Promoting the active engagement of foreign human resources is a pressing priority in addressing chronic labor shortages, particularly among essential workers. To realize an inclusive society with foreign human resources, it is necessary to enact “Basic Act on Promoting Active Engagement of Foreign Human Resources” (Basic Act) that sets out the definition of an inclusive society, the basic policy, the roles of the government, municipalities, and businesses, the relevant funding, and other matters.
- A governmental body should be established with a function that oversees the inclusive policy across all ministries and agencies. This body should disseminate the importance of active engagement of foreign human resources, as well as the need to establish an inclusive society.

4. Steady implementation of Japan-U.S. tariff agreement and robust economic security

- The Japan-United States tariff agreement is particularly significant because it marks Japan’s participation—as a special partner of the U.S.—in the initiative to build supply chains in strategically vital areas. It is imperative for both nations to steadily implement this agreement.
- Japan’s strategic investment plan in the U.S. should be pursued through close collaboration between the public and private sectors, with the aim of advancing economic security, industrial competitiveness, and the national interests of both Japan and the U.S.

Articulating national vision and advancing policies for Reiwa¹model shift

As values are growing diverse, sharing a national vision is essential for building consensus among stakeholders. We call on the new government to articulate a national vision, aimed at realizing a society embedded with economic dynamism and inclusive mindset that avoids fragmentation among the people.

¹ The Reiwa era: 2019-

Meanwhile, for solving Japan's mounting issues, it is necessary to break away from the systems and policies established during the eras of Showa² and Heisei³ of high population/economic growth, and to transition toward an economic and social model suited to the Reiwa era. To accelerate this process, we request the new government to take up the policy initiatives as follows:

1. Sustaining wage growth and addressing labor shortages

- From business side, we will sustain a wage growth momentum toward a real wage growth of CPI plus 1.0% or more. To foster a norm of wage growth, it is necessary to raise the minimum wage to 1,500 yen (national weighted average), with a focus on accelerating wage increases for areas of essential workers where labor inflow is critical.
- To address labor shortages, priority should be given to eliminating the annual income ceiling and shifting away from the mindset that restricts working hours. It is also necessary to overhaul existing work style reforms to enhance potential economic growth through increased labor input.
- On the labor legislation front, a framework should be put on the agenda to enable businesses and willing individuals to flexibly enter into contractual agreements under the Labor Contracts Act, while ensuring the protection of worker health.
- The active engagement of diverse human resources is indispensable to addressing labor shortages, enhancing productivity, and fostering innovation. All remaining barriers should be fully eliminated. In this context, we continue to support the introduction of a selective dual-surname system.

2. Energy strategy for carbon neutrality and robust industrial competitiveness

- To ensure a stable energy supply and the resumption of operations, we expect the new government to make every effort to take the lead in securing local understanding and consent for the restart of nuclear power plants that have been confirmed safe.
- To achieve carbon neutrality, meet growing energy demand, and ensure robust industrial competitiveness, it is essential to establish a medium- to long-term energy mix that avoids excessive reliance on any single energy source.
- To make this possible, it is also critically important to advance research and development of next-generation nuclear reactors and emerging energy sources. Accordingly, expansion of relevant investments and initiatives to build highly feasible future energy systems must begin without delay.

3. Regional revitalization initiated by local community to explore future opportunities

- In doubling the regional revitalization subsidy, its effectiveness must be grounded in inter-municipality collaboration. At the same time, discretionary funds should be allocated to ensure that each prefecture takes active responsibility for promoting cooperative and complementary relationships among local municipalities.
- Local revitalization initiatives for challenges must be evaluated by third-party institutions based on data, leading to implementation of more effective measures and further dissemination of the cases. We are also expecting more institutional, financial support for remote collaboration, driven

² The Showa era: 1926-1989

³ The Heisei era: 1989-2019

by digital technology.

- In the agricultural sector, reforms should be pursued to build high-productivity and sustainable structures, including the efficient consolidation of previously fragmented farmlands.

4. Reforms to social security system supported by all generations

- Japan's social security system must shift from its current structure—heavily reliant on contributions from the working-age generations—toward a model grounded in the “ability-to-pay” principle across all generations, supported by the My Number data infrastructure. Meanwhile, disposable income of the working-age generations should be improved by curbing social insurance premiums as a result of reviewing the scope of public health insurance benefits.
- For Japan's pension scheme, funding source for enhancement of the basic pension should be put on the agenda to strengthen the safety of the scheme for the future. Alongside this, we request the institutional reform: phase-out of the Category 3 insured persons system and the participants' transition to the Category 2 insured persons system.

5. Diplomatic and national security policy that responds to changing international order and geopolitical risk

- As Japan's national security environment grows increasingly severe, we must ensure autonomous self-defense capabilities by strengthening deterrence. Enhancement of deterrence should be achieved not only through the Japan-U.S. alliance but also via partnerships with the Japan-Australia-India-U.S. framework (Quad) and with like-minded countries such as South Korea and the Philippines.
- In economic diplomacy, we are expecting the new government's adherence to the high standards of the CPTPP framework, as well as its efforts in RCEP for participation of Global South countries and strengthening reciprocity.

6. Transparency in political funds and policy-driven politics

- We urge LDP, as the ruling and largest party, to provide thorough solutions to the political funding issue.
- The flow of political funds—including corporate and organizational donations—must be streamlined and made transparent to enable effective oversight. To ensure visibility in political funds' use and flow, and to enhance the quality of related audits, we propose the following three measures: a complete ban on handling political funds in cash; a prohibition on individual lawmakers maintaining multiple political organizations; and the establishment of a database system to manage political fund transactions. Furthermore, political fundraising reports should disclose the specific uses and purposes of all expenditures.
- We urge both ruling and opposition parties to pursue policy-driven politics, while exercising political leadership in addressing immediate challenges and in guiding the transition toward a new economy and society.