

What We Expect from the New Government

Drive the national reform for future generations

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Japan is in a big watershed of the age in terms of the various spheres of geopolitics, industrial structure, and the environment of our planet. We expect a new leader of such a country to have a vision befitting short-term and long-term challenges, and to tackle three tasks as described below.

1. Presentation of national/social vision that will gain public sympathy

(Efforts to gain public sympathy and support by presenting the facts and a long-term vision)

- Japan is now facing a short-term challenge of fighting the COVID-19 pandemic. It is also facing medium- to long-term challenges of declining competitiveness and income levels. Raising sustainability of systems for social security and providing medical/nursing care services, amid the rapid aging of the society, also fall under the latter type of challenges. **Public sympathy and support are indispensable** to ride out these challenges.
- The leader must **present the facts to the public in a comprehensible manner** with **a long-term vision** for Japan in 2050, which is to be disseminated among the public through open discussions. **The “vision” is not a nice-to-hear keyword, but a clear message about a target of our country and society for the coming generations, accompanied by prior selections to be made now for the future.**

(No innovation, no growth)

- The pandemic has accelerated the widening gap brought by the economic globalization and digitalization. **Wealth redistribution is necessary to prevent inequality and poverty from being entrenched and reproduced,** but **in the first place,** Japan's per capita national income has dropped from the world's third place in 1990 to the 29th in 2019. Namely, **Japan is no more a rich country.**
- With the maturing economy and the quickly shrinking working-age population, we must aim to be a country that generates surplus in income account of its

balance of payments by strengthening the corporate competitiveness in the world. Otherwise, our purchasing power could be further impaired, making it difficult to import even consumer staples such as food and energy. **In other words, a country, where a person with distinguished talent cannot find a way for success or startups cannot increase earnings by taking risks, will not be able to create innovation, and only have a future of everyone being equally poor.**

- Meanwhile, the digitalization of the economy has made the barriers between industries blurred, leading to more agile corporate decision-making. The leader must **pursue a vibrant country that attracts diverse human resources from inside and outside the country and generates innovation one after another.** This will happen only on the premise of **overhauling the regulatory/institutional scheme and national/local governmental organizations,** in line with the changes in the industrial structure caused by the digitalization.

2. Key policy areas

(1) Setting up effective rules for crises

- COVID-19 has revealed the limited effectiveness of measures taken by the national and local governments during the crisis such as the pandemic, as well as that of insufficient restrictions on human movement based on rules. The result was too much reliance on people's conscience.
- We need a cross-ministerial organization that can quickly respond to a wide range of crises that threaten our health and national security, and large-scale natural disasters. We are also reminded by the social disruptions that **it is necessary to establish proper rules in advance regarding the definition of “crisis” and the mechanism of post-crisis assessment. This is really true for the very purpose of preventing the risk of the national government exercising its unlimited power to restrict private rights.**

(2) Strengthening the growth power and competitiveness of the Japanese economy toward the realization of prosperous living of the public

(New capitalism and redesign of division of roles between public and private sectors)

- The conventional type of capitalism has created divisions in society as a result of widening and entrenched disparities, while threatening the sustainability of the environment of our planet through mass production and mass consumption. Meanwhile, the capital markets optimized with quarterly

earnings and stock prices are not deemed to correctly reflect the long-term value brought by companies to the society.

- Discussions are globally underway on the indicators that serve as the basis for impact investing, which quantifies and measures non-financial social and environmental impacts of companies such as the level of investment in human capital and the environmental burden. Japan should initiate the formulation of the global rules for the “new capitalism” through public-private partnerships.
- Japan’s traditional practical knowledge such as “chuyo” or literally “The mean is the best” and “sampo yoshi” or literally “Benefit for buyer, seller, and society” should be useful to realize the “new capitalism.” Keizai Doyukai will pursue deepening the discussions on the ideal capitalism unique to Japan, based on the sympathy and support of multiple stakeholders under the “Corporate Japan Concept” (tentative name).
- The division of roles between the public and private sectors is also to be redesigned. The businesses must drive economic growth through vigorous innovation, provide jobs, and pay taxes. The government must present a grand design to 1) redesign a regulatory framework for the thorough utilization of digital technologies and the promotion of innovation, 2) develop an environment that promotes open innovation, and 3) allocate the resources at the national level from a long-term perspective.
- It is a well-known fact that the Japanese economy has not grown over the past thirty years, although the government had produced a thick policy book each year that reflects a traditional growth strategy initiated by the country. We must remember the success of the Meiji Restoration in modernizing our country by entrusting the reform work to those with aspirations and abilities, regardless of their social status. In order to ensure an economy and society with rising average wages, it is essential to foster talented human resources and generate innovation. The public and private sectors must incorporate a wide perspective of “Inclusion & Diversity.”

(Acceleration in creating added value worldwide)

- The sustainable growth of Japanese economy requires companies with major operational bases in Japan, which produce, through continuous innovation and value creation, goods and services demanded worldwide, generate profits, and gain earnings in income account.
- We expect the government to take leadership in international cooperation and rulemaking, such as in economic security and climate change response, and to further support companies' efforts to achieve international standards in the new industrial fields. Meanwhile, the

framework of research and development investment, which supports the development of science and technology, is also to be overhauled, as it is the source of international competitiveness. In this regard, investment for and development of technologies are to be promoted for both civilian and military applications.

- When aiming at a virtuous cycle of growth and distribution, a vision that Japan drives the virtuous cycle by involving the world economies is important, beyond just resolving domestic challenges. As many east Asian countries and regions are aging, a sector of health, medical care, and nursing care is now one of the growth industries, as well as those of digital and green.

(Promotion of industrial reorganization and replacement of the old businesses with the new ones and enhancement of investment in human resources)

- Businesses must continue investment to improve productivity and win the global competition. For this, **a policy to promote industrial reorganization and replacement of the old businesses with the new ones is a must.** This policy will promote innovation by breaking vested interests and implementing regulatory reforms, and prevent supply constraints due to shortages of human resources and excessive competition in confined markets.
- The continuously rising income level of the people requires promotion of **market entry by high-productivity companies** such as start-ups, while recommending players to **leave the market earlier or regenerate,** if they **cannot respond to changes in the industrial structure or have low productivity.** A measure to simply extend the life of laggard companies would not be a solution.
- When a company exits the market, it is **not the vessel of the company that should be protected, but the intangible assets such as its people and technology.** Since human resources are one of the most important assets for Japan, we request the new government to address the issues including **1) a review of labor legislation to promote diverse work styles and smooth labor mobility in response to changes in the industrial structure, 2) more investment in people such as for education and re-skilling to prevent a chain of poverty, and 3) conversion of institutional education system that hinders the production of distinguished talents.**

(Supply chain and economic security)

- The globalization of the economy has made supply chains expanding. Given the current energy mix and extremely high electricity costs in Japan, locating all manufacturing processes in this country will inevitably lower wages for any

employment opportunities. To ensure prosperous living of the public and robust supply chains, **strategic and cross-ministerial economic security policies based on the public-private partnership are important, such as for leading the global rulemaking.**

(3) Development of sustainable social infrastructure for people to live with peace of mind

(Full-fledged reform of social security system including medical care service infrastructure)

- The fifth wave of the pandemic has revealed the vulnerability in providing the medical care services during the crisis. From a citizen's viewpoint, one of the important themes of our society in 2050 is social security.
- When the universal health insurance system was introduced in the 1960s, the average life expectancy of Japan was in the mid-60s. In the 100-year life society, the definition of the elderly has changed, and the diversification of households, such as the increase of a person living alone, has continued. Against this backdrop, **a far-reaching reform of the social security system including those in medical and nursing care, as well as in pensions, is of significant importance.** In particular, the government should promptly build **an efficient system to provide medical/nursing care services,** based on data health, **which functions not only in normal times but also in emergencies.**

(Realization of sustainable fiscal structure)

- **If we wish our social security system sustainable in our future, we cannot dodge the issue of the fiscal health.** In fiscal 2020, the government compiled three supplementary budgets due to the response to the COVID-19 pandemic, leading to the total amount of the general account going beyond the initial budget by 73 trillion yen. In fiscal 2021 again, the amount of government bond issuance is swelling as a result of large expenditure for anti-COVID-19 measures, including a reserve fund of 5 trillion yen. **Preparing a redemption plan for the government bonds is a pressing issue.** Furthermore, **the realization of a long-term sustainable fiscal structure is a must to ensure a financing capability for expenditure required in the event of a crisis like the pandemic.**
- In 1946, cash withdrawals from bank accounts were stopped and the redenomination to new yen was conducted in Japan. Immediately before these events, the ratio of public debt to GNP was 204.0% in fiscal 1944. The current ratio to GDP is even higher at 253.4%. **The role of the politics is to**

carefully explain the current fiscal situation of Japan to the people, and seek their understanding for the contributions, depending on the economic situation of each person. The new government cannot dodge this role.

- Keizai Doyukai has been advocating a set-up of the Independent Fiscal Institution (IFI). The IFI conducts evidence-based assessment of effects of government policies, thereby increases wise spending, and presents relevant facts to the public in an objective and comprehensible manner. Therefore, the IFI is a facility that smoothes the government's communication with the public. We once again request an early establishment of IFI.

3. Building a system and organization for the realization of a long-term vision

(Redesign of centralized organizations)

- The advance of globalization and digitalization has made the traditional barriers between industries blurred. The government has responded to this by creating many centralized organizations and councils led by the prime ministers, while updating various policies and plans every year. The result, however, was continued slow growth of Japanese economy over the past 30 years.
- To pull out of the rut, the system of governmental administrations and regulations must change in response to the swift advance of technologies and social change. We take it as a step forward that the Kishida Cabinet launched in October has assigned the digital minister responsibility for regulatory and administrative reforms.
- Going forward, saving Japan from further slump by promoting innovation and new businesses necessitates a breakdown of administrative silos, with effective cross-ministerial functions that have authority. The government must also review the National Government Organization Act and introduce a new framework of ministries and agencies befitting the times of digitalization.

(Review of the division of roles between the national and local governments)

- Providing high-value-added public services efficiently to the citizens is essential to maintain a prosperous life. This has to be supported by ensuring the use of database with a focus on the My Number System. This applies to normal times, as well as times of crises such as large-scale natural

disasters and the pandemic. To that end, we request the government to examine the division of roles between the national and local governments in light of the digitalization of society, and make a necessary overhaul promptly.

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