

Economic Policy Speech by Motohisa Furukawa, Minister of State for Economic and Fiscal Policy, to the 180th Session of the Diet

January 24, 2012

1. Introduction

I would like to present my policy stance as Minister of State for Economic and Fiscal Policy.

More than ten months have passed since the Great East Japan Earthquake and the nuclear accident. I would like to express my renewed condolences to those who lost their lives in the Earthquake and my heartfelt sympathy for those who were affected.

I, as a Japanese citizen, cannot help but be moved by the extraordinary efforts which people in the affected areas have shown towards recovery and reconstruction as well as by the strong spirit and the compassionate “kizuna” (bonds of friendship) which this nation has shown.

I will devote all my energy, as Minister of State for Economic and Fiscal Policy, to carrying out the grave duties, such as strongly promoting the recovery and the reconstruction of the affected areas towards Japan’s rebirth, accelerating the implementation of the New Growth Strategy, and thus elevating the Japanese economy on a robust growth path.

2. Basic Stance on Economic and Fiscal Policy: Realizing Innovation

To overcome challenges facing the Japanese economy today, I consider it crucial to realize innovation and enhance the growth potential in every aspect of society. The late Mr. Masaru Ibuka of Sony Corp. once said, “It is innovation that is important for an enterprise rather than invention.” Innovation is not just about the development of new products or technologies; it also involves realizing a noncontinuous development driven by free and new ideas and ingenuities, not being bound by the extension of past ideas and conventional thinking.

Such innovation often occurs in the process where different ideas or cultures encounter, merge or conflict with each other. Strengthening the flow of people, goods and capital across the border through strong promotion of high-level economic partnerships, for example, will lead to stimulation of innovation.

Japan’s strengths lie in the diversity of the national land that extends long from north to south, and a large number of vigorous small and medium-sized enterprises across the country. The seeds of innovation can be found in these strengths. The Government has taken a number of steps to grow these seeds and make them blossom with fruits of innovation. For example, it established Special Zones for Reconstruction, where corporate taxes are not imposed for start-ups for five years, as well as Comprehensive Special Zones, where bold deregulatory measures are taken. Making the most of these special zone systems, the Government will continue to enhance the ingenuity of local communities and encourage the creation of new businesses and the start-up of enterprises as well as rebirth and reorganization of existing businesses. Through these activities, the Government will help realize innovation in a variety of regions.

It is our younger generation that I expect most to realize innovation. The older generation accomplished the post-war economic reconstruction, often described as a miracle. It is no exaggeration to say that this was the result of innovation after innovation. I hope that the younger generation will emulate the can-do spirit of their forebears to achieve innovation. I will promote

supportive measures for human resources development as well as creation of new businesses and start-up of enterprises, and develop an environment where those who have failed can rechallenge. Through these measures, I will encourage the younger generation to challenge with their unrestrained and flexible ideas.

There is an old saying of the merchants of Ohmi¹, *sampo-yoshi* in Japanese, that means business must be good for seller, the buyer and society alike. Similar way of thinking appears in the words of “Rongo to Soroban (the Analects of Confucius and the abacus)”² which was advocated by Eiichi Shibusawa, founder of Japanese capitalism. This way of thinking has formed the base of Japanese corporate culture which emphasizes high levels of morality and social responsibility, thus enabling sustained growth on the basis of social compatibility. Joseph Schumpeter’s concept of “creative destruction” describes just one aspect of innovation. Learning from our ancestors, I would like to take advantage of the good aspects of Japanese culture to realize innovation that involves “constructive creation.”

So far, I have explained my basic stance on economic and fiscal policy management. Now, I would like to present three policy issues: short-term economic and fiscal management, medium- to long-term plan for economic growth and fiscal consolidation, and measures for new growth.

3. Economic and Fiscal Policy

(Economic and fiscal policy management in the short-term)

First of all, the Government, as its basic stance of economic and fiscal policy in the short-term, will make an all-out effort to avoid the further slowdown of the economy by measures responding to the yen appreciation, as well as to overcome deflation, with the aim of revitalizing the Japanese economy.

The Japanese economy is picking up moderately, while difficulties caused by the Great Earthquake still remain. Moreover, the environment surrounding the Japanese economy is unpredictable, as the financial markets are unstable mainly due to the European sovereign debt crisis. The Government shall continue to closely monitor the development with a sense of vigilance and respond appropriately.

The Government, considering the downside risks stemming from the European sovereign debt crisis and others, will make its best effort to avoid the further slowdown of the economy, by quickly and steadily implementing “Comprehensive Package Responding to the Yen Appreciation” as well as the third and fourth supplementary budgets of this fiscal year, while we work hard for the reconstruction from the Great Earthquake. Concurrently, the Government will work to revitalize the Japanese economy through executing the fiscal 2012 budget and others, thereby achieving sustainable economic growth over the medium- to long-term.

The Government will also decisively work to overcome deflation and make an utmost effort to prevent the economy from falling into vicious cycle between yen appreciation and deflation. The Government and the Bank of Japan share the view that it is essential to work together aiming at quickly realizing stable price increase. The Government expects that the Bank of Japan will conduct appropriate and decisive monetary policy management under further close coordination with the Government.

The Government projects, in its Economic Outlook decided by the Cabinet on January 24, that the fiscal 2012 real GDP growth rate will be around 2.2% and nominal GDP growth rate will be around 2.0%, as the implementation of reconstruction measures is expected to create demand and employment.

¹ “Ohmi” is the old name of Shiga prefecture.

² The article advocating harmony between morality and business.

(Measures to achieve both economic growth and fiscal consolidation)

In the medium- to long-term, economic and fiscal policy management should be conducted in such a way to achieve both economic growth and fiscal consolidation simultaneously and thus rebuild the foundations of the economy for the revitalization of Japan.

While reconstruction demand is expected to drive economic growth in the near term, the Government will work to ensure a smooth transition, to self-sustaining economic growth driven by private demand over the longer term. It will also promote a new international division of work, human resources development, and the employment of young people, women, and senior people with innovation serving as the core ingredient. Through these and other measures, the Government will strive to achieve the average annual growth of approximately 3% in nominal terms and of approximately 2% in real terms between FY2011 and FY2020 as the objectives of policy efforts.

Given the current European sovereign debt crisis, Japan is not allowed to waste time for fiscal consolidation. To this end, the Government will take steady steps in accordance with the Draft Plan for the Comprehensive Reform of Social Security and Tax, which was formulated at the beginning of this year.

The Government published its projection of what Japan's economic and fiscal conditions would be like over the medium- to long-term under these policies. The estimates will also serve as a criterion for reviewing these policies. Looking ahead, the Government will promote the development of human resources, such as government economists, and the innovation in policymaking by, for example, publishing analytical findings and projections that contribute to greater objectivity and transparency of government policies.

Through these efforts, the Government will strive to achieve economic growth and fiscal consolidation simultaneously.

(Towards new growth)

It is important to take steady steps towards fiscal consolidation as outlined in the Draft Plan for the Comprehensive Reform of Social Security and Tax. To that end, the Government must concentrate its resources on revitalizing the Japanese economy and enhancing its growth potential over the next two years. I will make all-out effort to achieve the objectives outlined in the Basic Strategy for the Rebirth of Japan, which was endorsed by the Cabinet in December last year, with emphasis on innovation. These objectives include further enhancing growth potential through such means as promoting economic partnerships and incorporating the world's growth potential, reviving and broadening the middle class, and strengthening Japan's worldwide presence.

The stable supply of energy, a precondition for the revitalization of the Japanese economy, should be achieved with an eye on Japan's energy supply structure in the future. While reducing dependence on nuclear power over the medium term, the Government will strongly promote the reduction, creation and storage of energy by realizing innovation. In particular, the Government will encourage the introduction and wider use of renewable energy and storage batteries – a policy measure that will also help address the issue of global warming.

Based on these concepts, the Government will put the Basic Strategy for the Rebirth of Japan into concrete shape and finalize it by the middle of this year. In order to restore "Japan with hope and pride", the Noda Cabinet will produce a national vision that indicates the new frontiers to open up and points out the direction to be taken over the medium and long term.

4. Conclusion

To date, Japan has faced and overcome several times difficult situations that can be described as a “national crisis”. The Japanese mindset is characterized by its resilience, returning flexibly to the original base after a shock. After experiencing the hardship, we Japanese re-emerge all the stronger. Now it is the time for us to demonstrate the potential of Japan to the world, isn't it?

To that end, however, we need to put an importance on coming generation rather than on ourselves. When Japan was under the occupation of the allied forces, Mr. Jiro Shirasu, who negotiated with the Allied Powers on behalf of the Japanese government as deputy director of the Central Liaison Office, wrote the following passage addressing to the people in Japan:

“Most likely, we will not be able to see many good days in our life time. The situation is that serious, and a thorny path awaits us. Yet I feel the responsibility and duty to compensate for at least a fraction of the failure we brought about and hand down to our children and grandchildren what we regain in the process.”

Since the Japanese at that time shared the same feeling as represented by these words of Jiro Shirasu, Japan could accomplish post-war reconstruction.

Let me remind you the famous speech to the nation in which the US President John F. Kennedy said: “Ask not what your country can do for you; ask what you can do for your country.”

Now I would like to say this to the people: “Ask not what we can do for ourselves; ask what we can do for the generations to come.”

To conclude my policy speech, I hereby promise that I will commit myself to make an utmost effort to fulfill my duties towards the rebirth of Japanese economy in order to build a society where the coming generation can have a sense of pride and confidence in being born in Japan and being Japanese.