

Economic Policy Speech by Akazawa Ryosei, Minister of State for Economic and Fiscal Policy, to the 217th Session of the Diet

January 24, 2025

1. Introduction

In his policy speech to the Diet, Prime Minister Ishiba Shigeru made his determination clear that he aims to perfect the crisis management framework and realize a growth-oriented economy driven by wage increases and investment as well as to build a balanced nation that allows the people to realize enjoyment based on the respect for human capital. In the past, Japan overcame numerous national crises in pursuit of “strength” and “affluence.” To address challenges associated with the recent decline of the population, it is necessary to create a society that values the importance of enjoyment for each citizen.

With this understanding, I would like to offer my opinions as the Cabinet Office Minister of State for Economic and Fiscal Policy with a view to creating a new Japan where all citizens can feel safe, secure, and a sense of enjoyment.

2. Current State Assessment of the Economy and Economic and Fiscal Management (Current State Assessment of the Economy)

The Japanese economy is beginning to experience a virtuous cycle of growth and distribution. The current nominal GDP exceeds 600 trillion yen. Wage increases are at their highest levels in 33 years. On the other hand, consumption has yet to experience a robust recovery amid continued rising prices. Japan is at a crossroads as to whether it can break free from a cost-cutting economy with all economic

actors shaking off their deflationary mindset and shift to a “growth-oriented economy driven by wage increases and investment.”

(Economic and fiscal management for the immediate future)

Under these circumstances, we compiled the Comprehensive Economic Measures to Foster the Safety and Security of Citizens and Sustained Growth last November. This economic package sets out three pillars: “the growth of the national and local economies”; “overcoming high prices”; and “ensuring the safety and security of the people.” We will promptly execute the fiscal 2024 supplementary budget, which finances the package. Also, we will steadily implement the fiscal 2025 budget – which we have compiled in an integrated manner with the supplementary budget – for seamless economic and fiscal management.

Given the expected outcomes of our immediate economic and fiscal management based on the package, we predict that in fiscal 2025, the Japanese economy will grow 1.2 percent in real terms or 2.7 percent in nominal terms.

3. Growth of the National and Local Economies

Now let me go into the details of the three pillars of the package. The first pillar is “the growth of the national and local economies.” It is aimed at increasing current and future wages and income for all generations.

(Improvement of the environment for wage increases)

Let me focus first on improving the environment for immediate wage increases. In order to promote and consolidate wage growth that outpaces inflation for all businesses, including local small and medium-sized enterprises (SMEs), we will facilitate, for example, investment in people, rectification of transactions through the appropriate price pass-through and other means, and improvement in productivity through investment in DX (digital transformation) and other labor-saving means, and support business successions and M&As that contribute to reinforced business foundations.

We will help to raise minimum wage. We will continue to make untiring efforts to achieve the ambitious target of increasing the national average minimum wage to 1,500 yen during the 2020s. To this end, we will start discussions on a medium-term policy for raising minimum wage at exchanges of views among the government, labor, and management. By the spring of this year, we will put together a set of measures to raise minimum wage.

We will promote the three-pronged set of labor market reforms, that is, reskilling all generations, introducing job-based personnel management, and facilitating labor mobility.

A measure of progress has been made in price pass-through practices, which help

to secure funds for wage hikes. Prices of services, of which labor costs take up a large proportion, are on the rise. To further ensure that appropriate price pass-through is practiced, we will strengthen the enforcement of the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors – with the Japan Fair Trade Commission playing the pivotal role – based on the findings of fact-finding investigations into transactions between clients and contractors. We will also submit legislation to amend this act to the current session of the Diet in order to deal with inappropriate practices, such as refusing to accept price hikes amid rising costs.

(Regional Revitalization 2.0)

Regional revitalization is at the heart of the policy to realize an enjoyable Japan. We will work to increase wages and income in every corner of the country and spread efforts to create a thriving, vibrant Japan from thriving, vibrant local areas all over the country. To this end, we will formulate a basic vision on which we will intensively work for the next ten years, followed by the expansion of Regional Revitalization 2.0. Prior to this, we have allocated 200 billion yen for regional revitalization subsidies in the fiscal 2025 budget plan, a twofold increase from the fiscal 2024 level.

We will support regional efforts to draw out the potential of regions by leveraging

wisdom and passion of citizens through collaboration among government, industry, academia, the financial community, labor organizations, and the media in the local community. These efforts include those aimed at creating new demand by significantly increasing the value of the local resources – which are traditionally manifested through analogue means – with good use of digital technologies, such as Web3, blockchain technology, and NFT.

Regional Revitalization 2.0 has drawn lessons from the fact that good practices for regional revitalization have ended with isolated efforts in a specific area. To replicate successful examples elsewhere, therefore, the new plan will promote “Vision for Regional Innovation and Revitalization” and “Wide-area regional cooperation”, as two of the main objectives. We have three more objectives. These are “making local areas chosen by young people and women;” “relocating industry, government, and academia to regional areas and revitalizing local areas”; and “developing infrastructure for a new era.” All these five objectives constitute the centerpiece of “the Reiwa Era remodeling of the Japanese archipelago.” We will bring about bold changes under this plan.

(“Stimulating Japan’s Investment Power” and “Promoting Japan as a Leading Asset Management Center”)

In order to increase current and future wages and income, we will implement

initiatives for “Promoting Japan as a Leading Asset Management Center” that will make a steady shift from savings to investment and support the asset formation of the people. These initiatives will be implemented in combination with initiatives for “Stimulating Japan’s Investment Power,” in which bold public-private partnership investments are made in growth sectors. With all these initiatives, we will transform the Japanese economy into a growth-oriented economy that creates high added value.

We will work on promoting science and technology (S&T) and encouraging S&T innovation; facilitating domestic investment in GX (green transformation), AI, and semiconductors; and exploring frontiers in space and marine areas. We will also enhance support for startups. In particular, we will strongly support Rapidus and other semiconductor industry players that take on the challenges of the future. The idea is to allow Japan to regain the lead in the global semiconductor market. We will also work to enhance and otherwise improve NISA and iDeCo.

(Tapping into the economic vitality of other countries and promoting international economic partnerships)

At the World Economic Forum in Davos on January 21, I appealed to the participants, explaining that Japan, in the context of a declining population, is facing a labor shortage, however, unlike other countries, we do not need to be

concerned about rising unemployment rates, which allows us to focus on raising wages and enhancing productivity. Politically, with a minority ruling party, we are rather in a position to pursue policies that can garner broad support and understanding from the public. Japan is at a critical juncture, with a great opportunity to turn challenges into advantages, and making the future of Japan an ideal time to “buy.” I also urged key figures there, both from Japan and abroad, to visit Expo 2025 Osaka, Kansai, Japan.

To tap into the economic vitality of other countries, we will work hard to lure more foreign direct investment into Japan. In addition, we will promote the export of agricultural, forestry, and fishery products and support small enterprises in expanding their operations overseas. We will also strengthen economic partnerships with other countries. The CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), in particular, is of great significance in further facilitating free trade, open and competitive markets, rule-based trade systems, and economic integration. Japan will continue taking the initiative to maintain and expand the free and fair economic order through such efforts as Costa Rica's Accession Process and the General Review of the CPTPP.

4. Overcoming High Prices

The second pillar is “overcoming high prices.” The aim is to pave the way for a

transition to a growth-oriented economy in which no one is left behind.

As an additional immediate measure to this end, we are taking steps to deliver benefits to low-income households. Many municipalities are already making arrangements for the delivery. I ask municipalities, which are responsible for delivery affairs, to make further effort to make prompt delivery.

We will continue to take measures against rising prices which are fine-tuned to reflect local realities. These measures can cover such areas as supporting consumers and business operators that use LP gas and kerosene; financing health care, long-term care, child-rearing facilities; and subsidizing school lunch fees.

5. Ensuring the Safety and Security of the People

The third pillar is “ensuring the safety and security of the people.” The idea is to support a growth-oriented economy.

Tottori Prefecture is a major pear-production center in Japan. Pear producers there have been systematically growing trees dedicated to producing pollen that is needed to produce pears, rather than depending on imported pollen. Recently, fire blight, a disease that seriously damages fruit trees, has spread throughout the world. Imports of pear pollen from the affected countries were banned. Nevertheless, producers in Tottori were able to continue with the stable production of pears. They also provided the pollen they had produced to other production centers in Japan

where such pollen was scarce to support pear production there. This is a case of crisis management in which Tottori Prefecture contributed to Japan's food security. I believe that fully preparing for contingencies during peacetime is a vital requirement for a transition to a growth-oriented economy.

(Disaster risk reduction and national resilience)

We will advance efforts for disaster risk reduction and national resilience. These involve supporting recovery and reconstruction from natural disasters as exemplified by the Great East Japan Earthquake and the 2024 Noto Peninsula Earthquake, as well as improving the evacuation shelter environment. In order to realize “a disaster-resistant nation” that prioritizes life and human rights, we have decided to fundamentally strengthen the functions of the Cabinet Office in charge of disaster management in terms of both budgeting and staffing during fiscal 2025. On that basis, we will expedite preparations for the establishment the disaster management agency by the end of fiscal 2026. The idea is to tremendously enhance the capabilities to plan disaster management and work on “disaster prevention and preparedness with all efforts” during normal times, and also ramp up conduct overall coordination capabilities in the event of disaster.

(Social security for all generations and measures to tackle the declining birthrate)

Going forward, Japan will see full-scale depopulation and usher in a super-aging society. Under these circumstances, it is crucial to build a social security system that provides a real sense of security for the public. To lessen the burden on the working population, we will step up support for young people and families with small children. We will build a mechanism for enabling people to help one another according to their abilities while prioritizing and streamlining social security benefits, which are on the rise.

If all citizens, including women and senior citizens, are able to continue enjoying working according to their willingness and capacity, they will see their lifetime income increase and they will likely enjoy a longer healthy life expectancy and a higher level of happiness. By establishing a social security system that is neutral to work styles, we will increase the number of people who pay social security contributions while securing the necessary labor force.

Under this approach, we will steadily deliver the specific reform items that are set out in the Reform Plan for Building a Social Security System for All Generations in the order of their feasibility. These items include further expanding the coverage of employee insurance. In addition, we will work to have local areas that are chosen by young people and women based on the understanding that tackling the declining birthrate and regional revitalization are both sides of the same coin.

6. Basic Approaches for Economic and Fiscal Management (Economic Revitalization and Fiscal Consolidation)

By taking all these and other measures, we will continue to conduct economic and fiscal management with the idea that a “the economy is the foundation of public finance.”

According to the Economic and Fiscal Projections for Medium to Long Term Analysis released this January, although the primary balance of central and local governments is projected to be deficit in fiscal 2025, it is the narrowest deficit since fiscal 2001, when the primary balance target was set for the first time. The fiscal situation is steadily improving. We will take measures that focus on increasing potential economic growth and continue with the expenditure and revenue reforms. Under the framework of the Economic and Fiscal Plan for New Stage, the Basic Policy on Economic and Fiscal Management and Reform 2025 will introduce a set of fiscal consolidation measures, including those designed to achieve the primary balance surplus as early as possible.

7. Conclusion

I aspire to realize regional revitalization starting in Tottori, which is my constituency and the least populous prefecture in Japan. In the latest general election campaign, I received urgent requests from local young people and single

mothers who seem to work at or near the minimum wage and earn less than two million yen a year. They asked me to do something so that they can have a better life.

We must surely change the status quo in which people who have opted for work over welfare cannot live without worrying about tomorrow. This is a critical mission that politics must undertake. I aspire to improve the earning capacity of the regions with regional revitalization initiatives. I aspire to raise the minimum wage in all prefectures, including, of course, those with lower minimum wage, including Tottori, so that all working citizens can live free from worries about tomorrow. I aspire to solidly support citizens who cannot work as well. With these and other aspirations in mind, I have been continuing political activities to date.

I serve as Minister in charge of Wage Increase in the Ishiba Cabinet. I am the first such minister under the current constitution. My goal is to raise the national average minimum wage to 1,500 yen during the 2020s amid the chronic labor shortage and reduce related regional disparities. I am determined to do my best to achieve this goal, not least in order to deliver what I have promised to my constituents, who made desperate pleas to me.

I would like to ask the Japanese public and all members of the Diet for their understanding and cooperation in this regard.