

TOWARD A NEW FORM OF CAPITALISM:

OUTLINE OF THE EMERGENCY PROPOSAL FROM THE COUNCIL OF NEW FORM OF CAPITALISM REALIZATION

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At his inaugural press conference in October 2021, Japan's new prime minister KISHIDA Fumio announced his aim to realize a new form of capitalism.

There is a growing trend around the world to search out a capitalist economy for the new era in which corporations and governments make bold investments, while protecting the middle class—which forms the core of a healthy democracy—and preparing for global-scale crises such as climate change. The new initiative of the Kishida administration aims to take the lead of that global trend, focusing on sustainability and human capital.

The core concepts of the new initiative are “a virtuous cycle of growth and distribution” and “developing a new post-COVID-19 society.” Growth strategy and distribution strategy will work in tandem to realize them.

On November 8, the emergency proposal was formulated by the Council of New Form of Capitalism Realization, which was established to shape a vision toward the realization of a new form of capitalism and translate it into concrete measures. It emphasizes that growth must be realized first—positioning the growth strategy as the trigger for the virtuous circle of growth and distribution—while also stating that the distribution strategy serves as an essential foundation for sustainable growth. The proposal urges Japan to mobilize all possible policies toward the realization of the virtuous cycle of growth and distribution.

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Outline of the basic ideas of the emergency proposal

Since the 1980s, a growing emphasis has been placed on short-term shareholder value, resulting in a sluggish growth of the middle class, widening disparities, an increasing burden on subcontractors, and adverse effects on the natural environment and others. Thus, the government, private sector,

universities, local communities, and citizens and consumers should all play their respective roles to solve pending issues. Private companies are requested to enhance their mid- to long-term earning power by strengthening their investments in the future in areas such as human capital, and to achieve sustainable growth by circulating their profits through wage increases and other distributions, as well as through further investment in the future. We are committed to building a sustainable capitalism focused on various stakeholders. While our basic principle is to realize economic growth by utilizing market functions, it is also important for the public and private sectors to work together to create an economy for a new era, with the government providing a supplementary response in areas that are not sufficiently addressed.

Due to the COVID-19 pandemic, people's mindset about their work style and lifestyle has changed, with digital transformation—which



Prime Minister Kishida established a Council of the New Form of Capitalism Realization to discuss concrete measures to realize a new form of capitalism.

The emergency proposal was formulated at the meeting held on November 8.



until now had not proceeded very far—suddenly beginning to make rapid progress. Now is the time to reform conventional socioeconomic practices and restrictions as well as institutions to build a new society premised on coexisting with COVID-19.

As a trigger for a virtuous cycle of growth and distribution, it is necessary to realize growth in the first place. We need to promote efforts to realize a science and technology nation, including those for digital transformation (DX) and growth of the green sector toward a solution to the climate change, thereby drastically strengthening our capacity for innovation. We also need to provide comprehensive support for startups as the driver of innovation that will carve out the future of Japan. It is also important to use innovation to solve social issues in a bid to create a highly convenient society and to promote the improvement of productivity in a wide range of industries and enterprises, thereby helping to create of a prosperous middle class.

Our distribution strategy serves as an important foundation for growth. Consumption is expected to increase through distribution to employees in the form of wages, which then stimulates demand, leading to improvement in corporate earnings and sustainable growth. In order to realize growth and distribution at the same time, it is necessary to strengthen investment in people through efforts ranging from those in childcare and early education, to those within companies. We must also respect diversity and inclusivity to create a society where all citizens can participate and play an active role and establish an environment where each individual can create added value.

From such perspectives, Japan should mobilize all possible policies toward the realization of a virtuous cycle of growth and distribution that will then achieve subsequent growth. To this end, it is essential to increase productivity through our growth strategy and to distribute the fruits of that growth in the form of wages to working people, thereby raising the income level of a broad range of citizens.

Issues to be addressed as an utmost priority

The emergency proposal outlines the multiple measures that should now be given utmost priority by the Kishida administration.

Under the growth strategy, the top priority is promoting the realization of a science and technology nation, to which end, a university fund will be established at a scale of 10 trillion yen during the current fiscal year. The second priority is promoting the revival of the dynamism of Japanese companies and providing comprehensive support for startups as the driver of innovation while simultaneously strengthening tax support for large companies assisting startups. The third priority is launching a Vision for a Digital Garden City Nation by implementing digital technology such as telework, drone delivery and autonomous driving, beginning with local regions. The fourth and final priority is promoting economic security. A fund will be established, with innovative technologies to be developed in crucial areas such as artificial intelligence and quantum technology.

Under the distribution strategy, the first course of action will be to provide support to the private sector to strengthen the distribution of wealth. Support will be drastically strengthened within the tax code for companies that raise wages to increase the percentage of the distribution allocated to labor. The second course of action will be to strengthen the distribution function in the public sector. Public prices will be revised to increase the incomes of those working at facilities providing medical nursing, elderly care, childcare services, and the like.

In response to this emergency proposal, the government will make a concerted effort to immediately address the matters outlined. The Council of a New Form of Capitalism Realization will continue to conduct brisk discussions to compile, by next spring, a grand design and an outline of the approaches to substantialize it, and will keep the world informed of its progress.