

FUTURE DESIGN 2040

“Virtuous Cycle of Growth and Distribution”

Aiming for a Fair, Equitable, and Sustainable Society



The keyword is 'Social Point of View.'
Without a better society,
the economy cannot thrive.



Introduction

When I first made my rounds of greetings after becoming the Chairman of Keidanren, the words of Honorary Chairman Takashi Imai have stayed with me.

"Keidanren must think about the whole country and advocate the right course of action."

His sharp look in his eyes and the powerful words made me stand up straighter. I never expected to feel this way at this age, and it seemed as if he could see the uncertainty in my heart after suddenly receiving the baton from former Chairman Hiroaki Nakanishi.

At that moment, I felt that my path as Chairman of Keidanren was decided. Amid the COVID-19 pandemic, with anxiety and a sense of stagnation spreading throughout society, I resolved to make Keidanren one that unwaveringly communicates the fair arguments.

The keyword I have repeatedly emphasized is "Social Point of View." Without a better society, the economy cannot thrive. I believe that sustainable economic growth must be accompanied by values and ethics such as fairness and equity. The issues I have focused on are two harms caused by excessive capitalism. One is the collapse of the ecosystem, for which I proposed the "GX Proposal" ^(Note 1), and the other is the issue of inequality, for which I proposed the "Formation of an Ample Middle Class" ^(Note 2).

In my final year as Chairman of Keidanren, I created *FUTURE DESIGN 2040*, envisioning the future society of Japan from the perspective of future generations. In doing so, I made sure to express my thoughts and the fair arguments.

There is no greater joy than if *FUTURE DESIGN 2040* serves as a guide to the right direction for Japan's chaotic economy and society.

KEIDANREN (Japan Business Federation) Chairman

TOKURA Masakazu

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Overview of FUTURE DESIGN 2040

Japan faces two major challenges:

- ① an aging population and declining birthrate, and
- ② a resource-scarce island nation.

Additionally, we must also address global environmental changes, such as frequent and severe natural disasters, ecosystem collapse, and an unstable international economic order.

Our goal is to create a "fair and equitable" and "sustainable" society where each citizen can proudly and independently express their individuality and abilities, achieve well-being, and ensure that future generations can continue to have hope. To achieve this, sustaining a "virtuous cycle of growth and distribution" is essential.

Regarding "growth," the realization of a "Science and Technology-Oriented Nation" and a "Trade and Investment-Oriented Nation" is the pathway that Japan's economy and industry must follow.

In *FUTURE DESIGN 2040*, we outline the necessary policies to build such a future. These challenges and policies are interrelated and form a complex "nested structure". Therefore, a holistic approach is necessary, rather than individual responses. It is essential that not only the government but also all stakeholders - including businesses - execute policies from the "Social Point of View."

(Note 1) "Towards Green Transformation (GX)" (May 2022)

(Note 2) "Achieving a Virtuous Cycle Towards Sustainable Capitalism" (April 2023 - Japanese only)

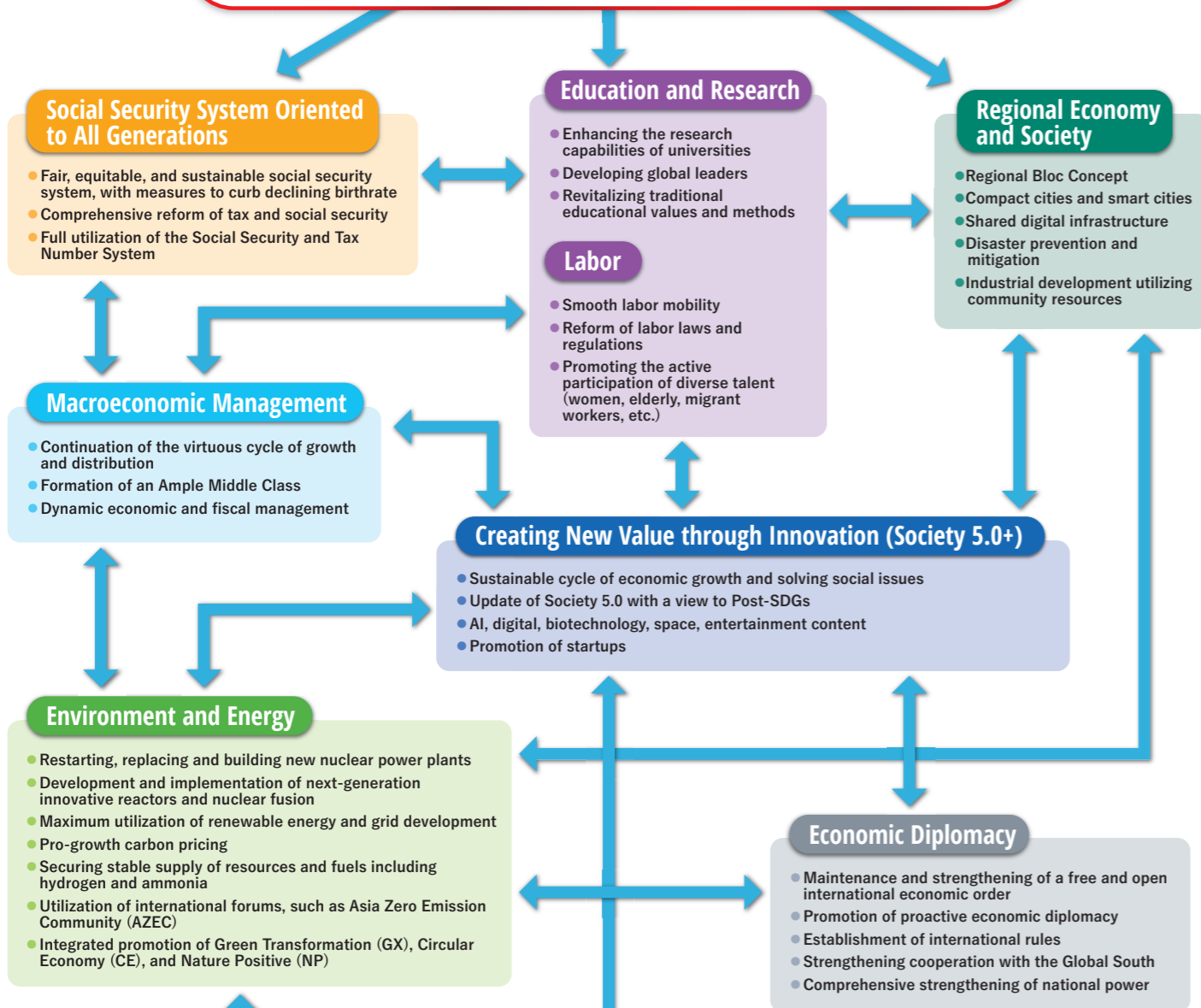
Vision of the Nation

Fair, Equitable, and Sustainable Society

Growth through a "Science and Technology-Oriented Nation" and a "Trade and Investment-Oriented Nation"

Challenges Japan Must Overcome ①

Aging Population and Declining Birthrate



Challenges Japan Must Overcome ②

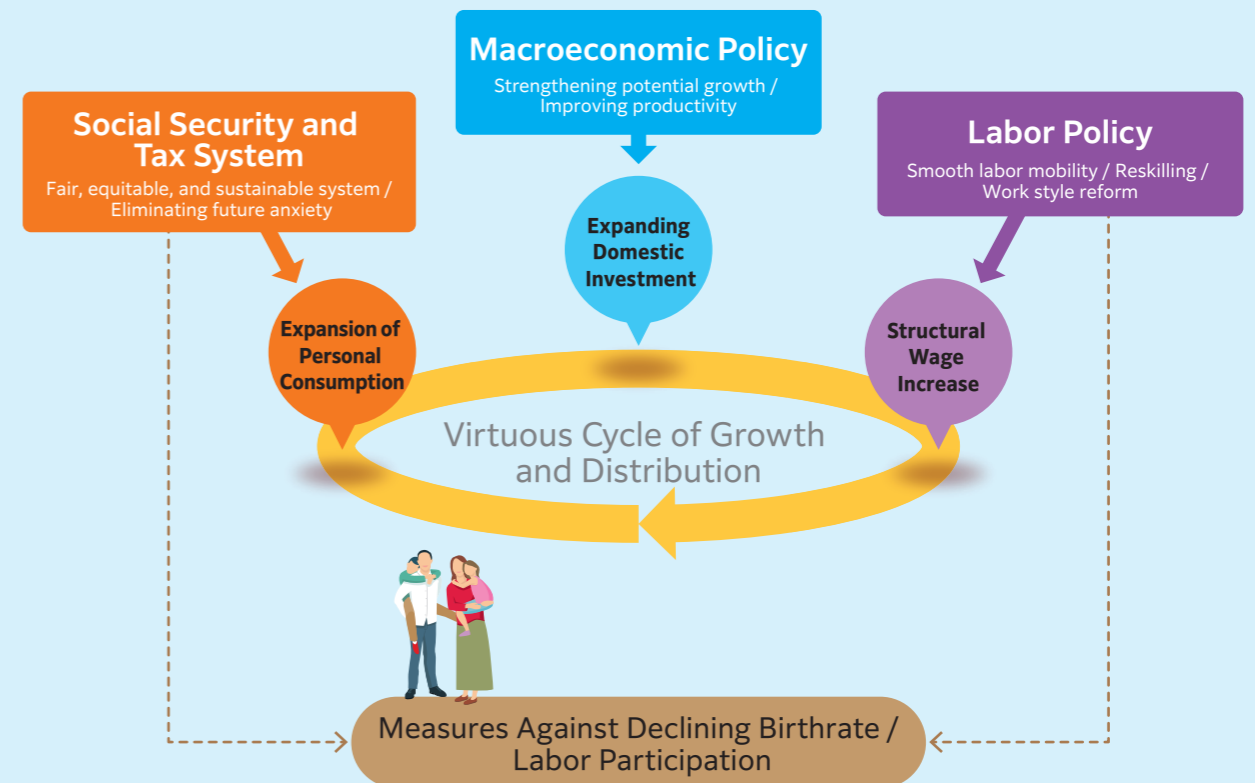
A Resource-Scarce Island Nation

Global Environmental Changes Surrounding Japan

Frequent and severe natural disasters Ecosystem collapse Unstable international economic order

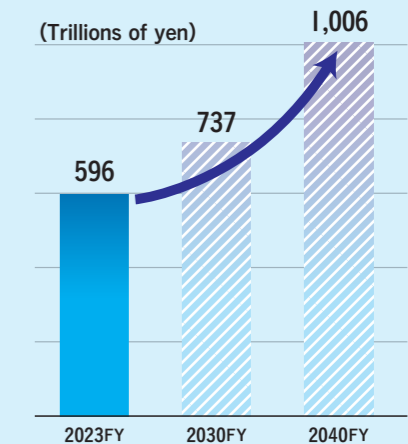
Macroeconomic Management and the Vision for Japan's Economy in 2040

Sustaining the "virtuous cycle of growth and distribution" is the fundamental premise of all policies.



In *FUTURE DESIGN 2040*, we conducted simulations using a macroeconomic model. In the "Reform Realization Case," which includes various reforms necessary for the "Virtuous Cycle of Growth and Distribution," real growth of about 2% and nominal growth of about 3% were projected to continue. As a result, nominal GDP is expected to reach approximately 1,000 trillion yen by 2040, and the country's fiscal situation will improve.

■ Nominal GDP Trends in the "Reform Realization Case" of the Macroeconomic Model Simulation

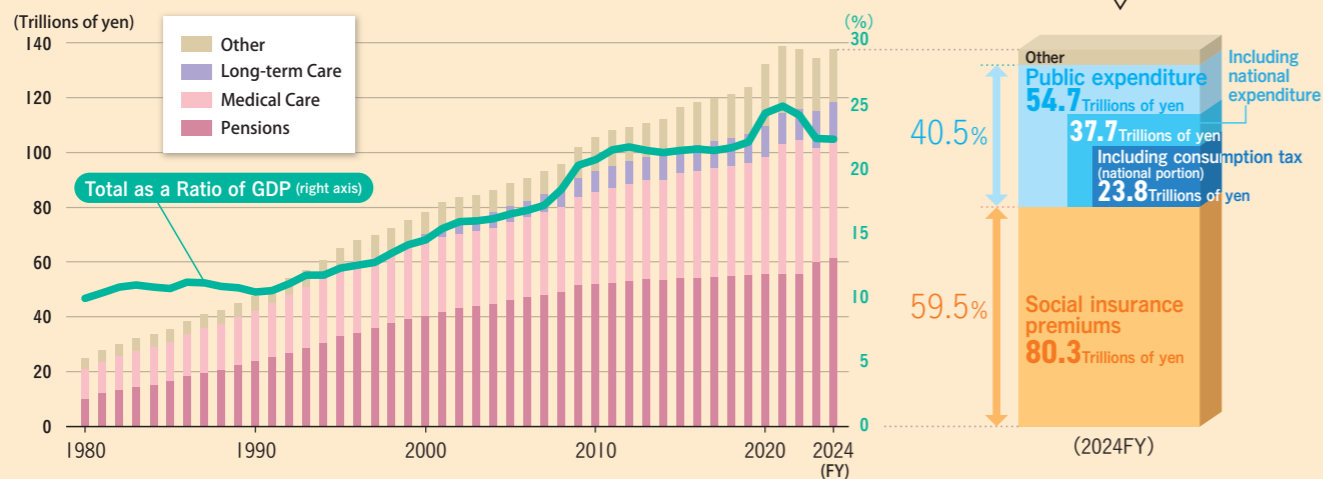


Social Security System Oriented to All Generations



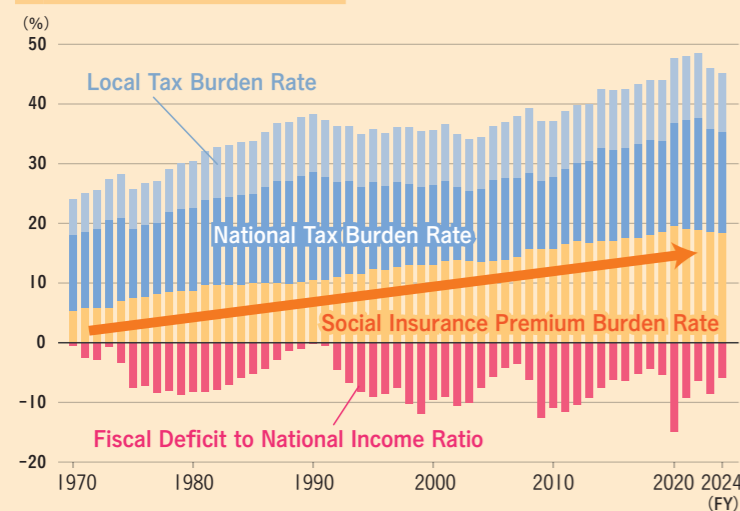
- Amid a declining birthrate and aging population, social security benefit costs have been increasing significantly, with the shortfall in funding covered by fiscal deficits. The growing burden of social insurance premiums each year weighs heavily on the working generation. This has created vague future anxieties, especially among the younger generation, which in turn suppressed their propensity to consume.
- Therefore, in order to expand personal consumption—the key to the “growth” aspect of the “virtuous cycle of growth and distribution”—it is urgent to promote reforms to establish a fair, equitable, and sustainable social security system oriented to all generations, and to eliminate public anxiety about the future through the integrated reform of tax and social security systems. An organization to comprehensively consider the integrated reform of tax and social security (tentatively named “Council for Promoting Integrated Reform of Tax and Social Security”) should be established.

Trends in Social Security Benefit Costs and Their Ratio to GDP



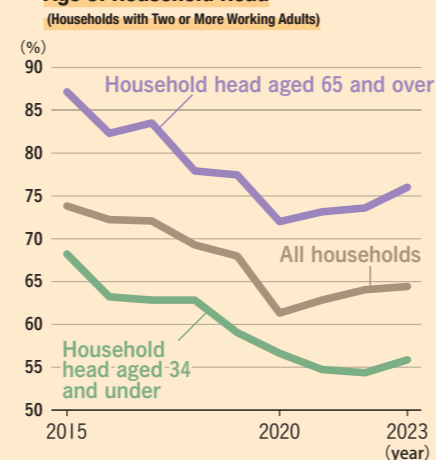
Source: National Institute of Population and Social Security Research, Ministry of Health, Labour and Welfare, the Cabinet Office, Ministry of Finance

Trends in National Burden Rate



Source: Ministry of Finance

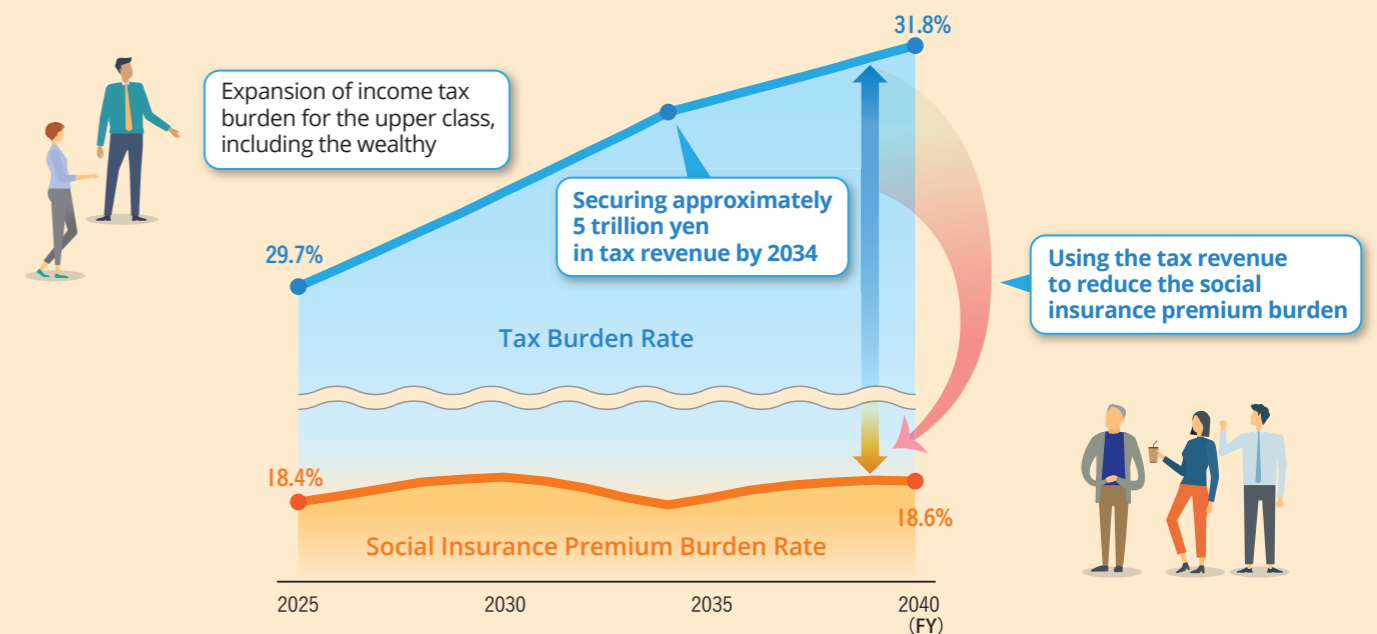
Trends in Propensity to Consume by Age of Household Head



Note: The propensity to consume is calculated as consumption expenditure ÷ disposable income
Source: Ministry of Internal Affairs and Communications

- To achieve a fair, equitable, and sustainable system, it is necessary to consider ① thorough ability-to-pay taxation, ② consumption tax increase, and ③ appropriate burden sharing by companies.
- In the “Reform Realization Case” of the macroeconomic model simulation, ① thorough ability-to-pay taxation was implemented, and the revenue generated (approximately 5 trillion yen by the mid-2030s) was used to curb the increase in social insurance premium burdens. This resulted in a reduction of the burden on the working generation, leading to a virtuous cycle of growth and distribution and the formation of an ample middle class.
- If adequate revenue is not secured, it will also be necessary to implement ② consumption tax increase and ③ appropriate burden sharing by companies. However, to avoid hindering the realization of the “virtuous cycle of growth and distribution,” the timing of the burden increases for ② and ③ should be considered, and measures against regressivity will also be necessary.

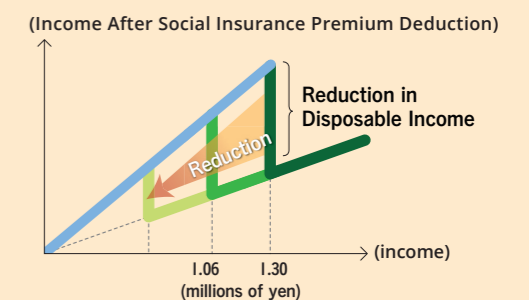
Trends in Tax Burden Rate and Social Insurance Premium Burden Rate in the “Reform Realization Case” of the Macroeconomic Model Simulation



- With more than 70% of households now being dual-income, the current social security system, which is based on the assumption of single-income households, must be reviewed. It is necessary to reduce the “income wall (Note 1),” for promotion of women’s employment.

(Note 1) The “income wall” refers to the reduction in disposable income earnings exceed a certain threshold, which mandates joining social insurance and paying premiums. This is a factor that limits working hours for married women.

Illustration of Reducing the “Income Wall”



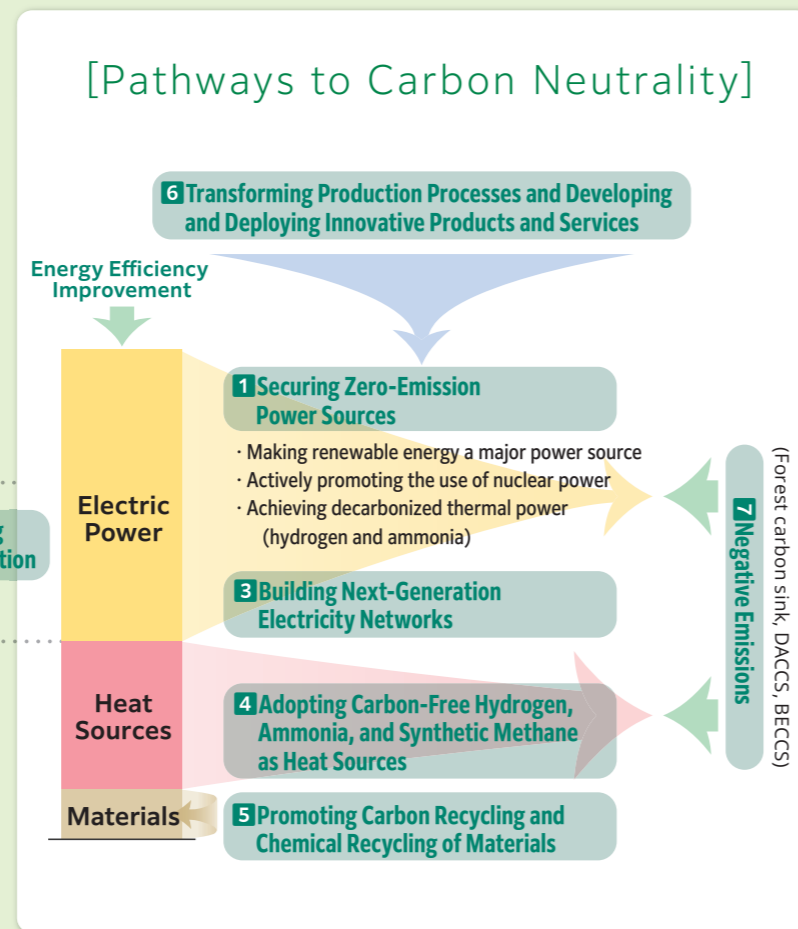
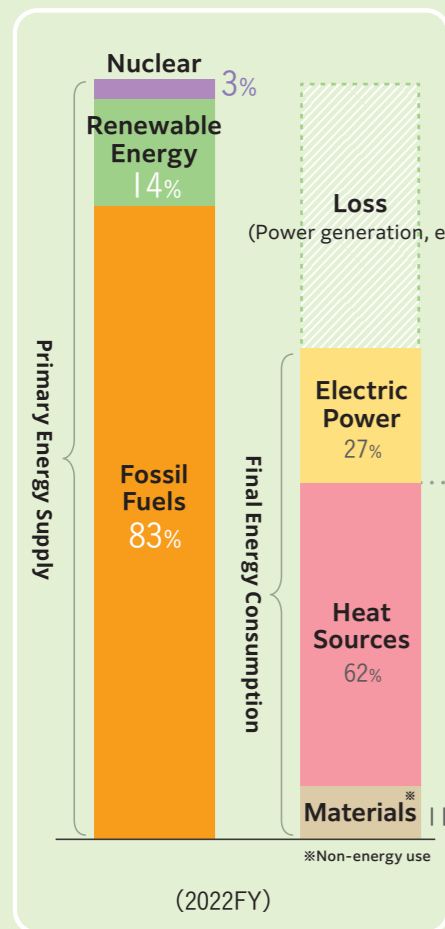
- For fair and equitable benefits and burdens, it is necessary to link the individual Social Security and Tax Number with income and assets (such as bank accounts). This will also contribute to a fundamental simplification of tax and social security-related administrative tasks.

Environment and Energy



- To achieve carbon neutrality (CN) while enhancing Japan's industrial competitiveness and driving economic growth, we will vigorously promote the Green Transformation (GX).
- The government is required to utilize GX Economy Transition Bond to invest in the development of innovative technologies and social infrastructure. By increasing predictability for private companies, we aim to achieve 150 trillion yen in GX investments over ten years. Furthermore, we will work on implementing a growth-oriented carbon pricing system and create green markets in Asia through the AZEC initiative.

Seven Pathways to Achieving GX



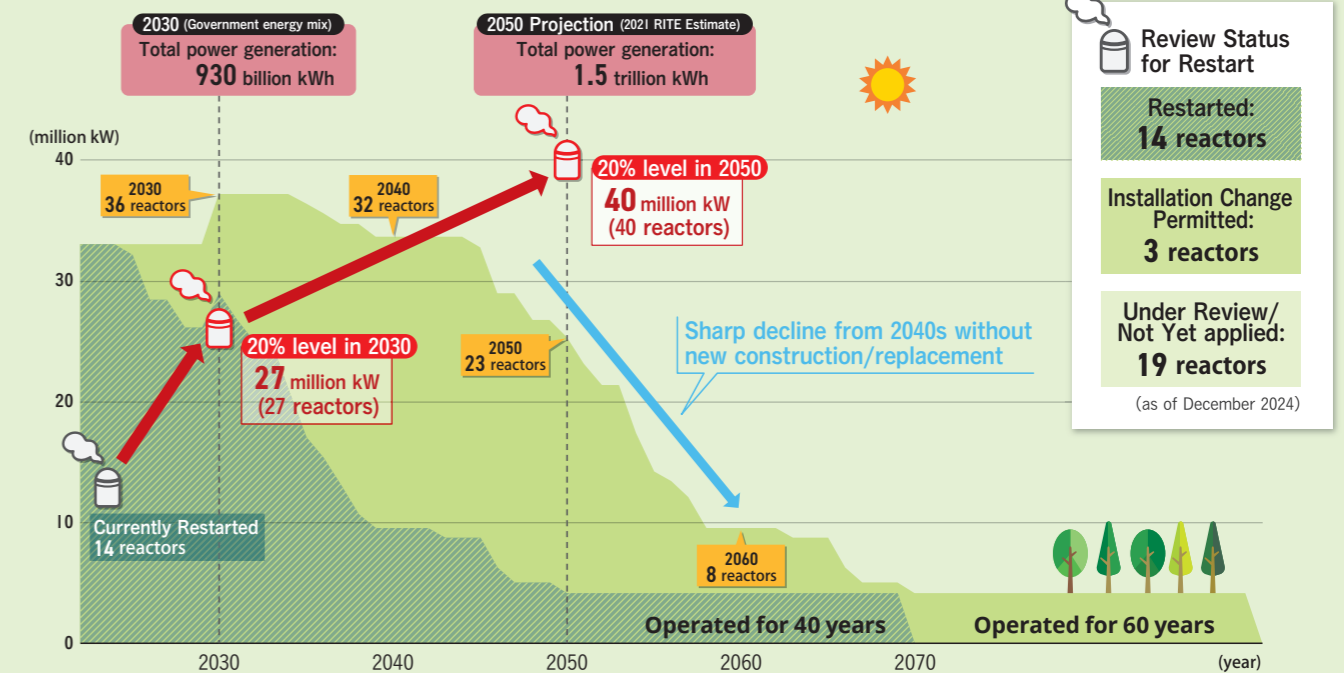
Source: Agency for Natural Resources and Energy, Keidanren

- While maximizing the introduction of renewable energy is crucial, the utilization of nuclear energy is essential to ensure S+3E (Note 1). Additionally, it is necessary to actively invest in the development of next-generation innovative reactors, such as fast reactors and high-temperature gas-cooled reactors, as well as nuclear fusion reactors.

(Note 1) S+3E

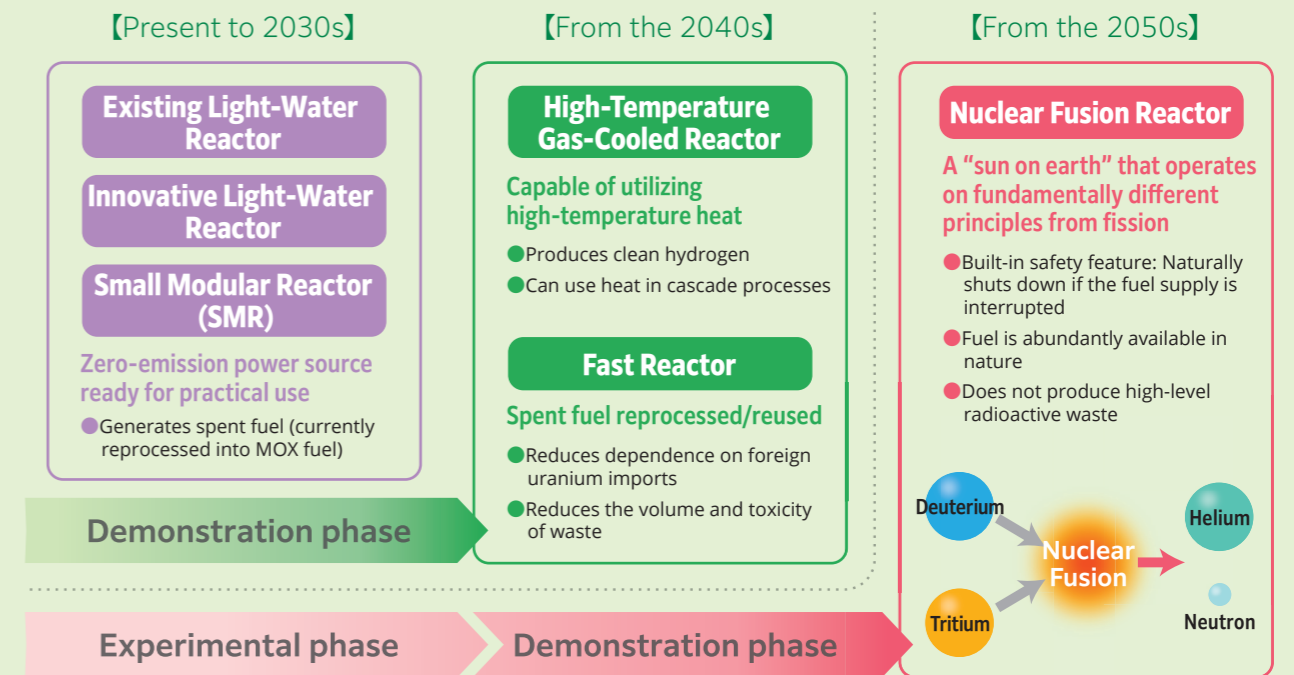
Ensuring Safety as the foundation, while balancing Energy security, Economic efficiency, and Environment

Nuclear Power Plant Capacity Outlook



Source: Prepared by Keidanren secretariat based on materials from Japan Atomic Industrial Forum and Agency for Natural Resources and Energy

Roadmap for Utilizing Next-Generation Innovative Reactors



Regional Economy and Society



- We will promote The “New Regional Bloc Concept,” which establishes “regional blocs” as virtual units larger than prefectures, allowing each bloc to implement its own policies. Each regional bloc will focus not only on industrial promotion, such as tourism and agriculture, but will also consider factors such as industrial and energy site locations, compact cities, smart cities, and the role of local universities, aiming for mutual growth and development.
- Given the recent increase in the frequency and severity of disasters across various regions, it is clear that Japan’s climate is becoming more subtropical. In response to this, it is essential to promote disaster-resilient urban planning, leverage disaster prevention digital transformation (DX), and carry out inspections and upgrades of infrastructure to better prepare for future disasters.

Areas Expected to be Addressed by Regional Blocs

Tourism and Agriculture

- Developing sustainable local industries that make use of the natural and cultural resources of region.

Local Universities

- Developing core regional universities and distinctive local universities.

Compact Cities and Smart Cities

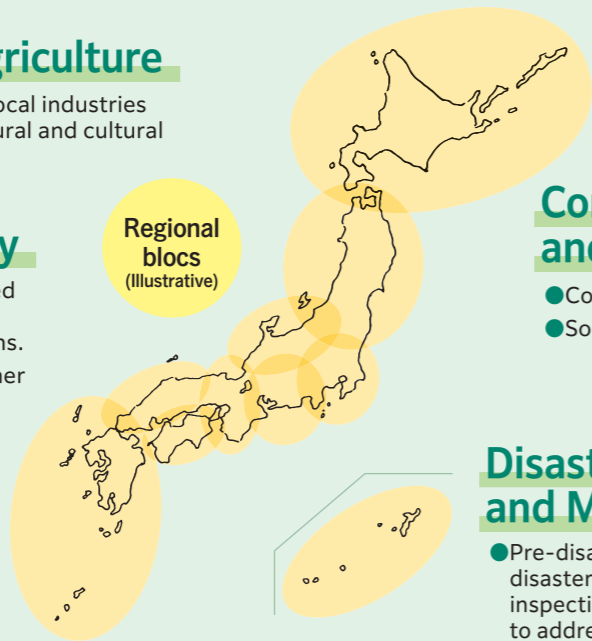
- Consolidating public facilities.
- Social implementation of smart cities.

Disaster Prevention and Mitigation

- Pre-disaster planning, utilizing DX for disaster prevention, and carrying out inspections and upgrades of infrastructure to address climate change.

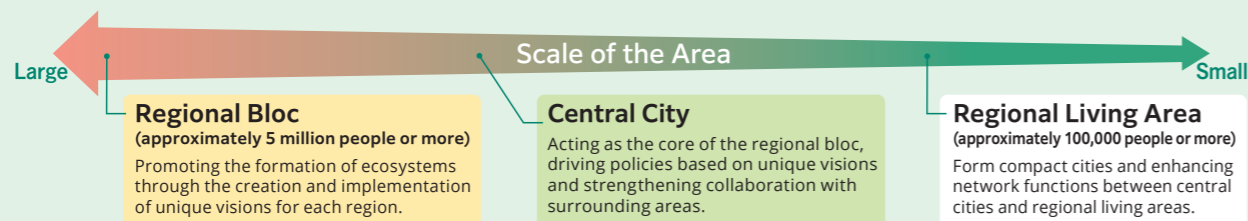
Industry and Energy

- Creating industrial clusters based on the characteristics of each region, including energy locations.
- Locating of data centers and other facilities in suitable areas.
- Promoting the local production and consumption of renewable energy.



Note: This map and the regional blocs do not comprehensively represent Japan's territory

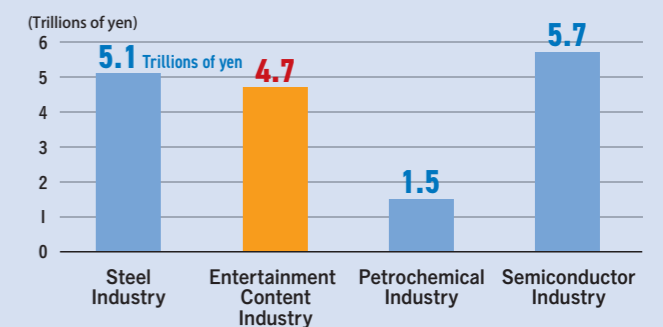
Image of Multi-layered Regional Collaboration Including the New Regional Bloc Concept



Creating New Value through Innovation

- We aim for a society where economic growth and the resolution of social issues are sustainably achieved through an innovation cycle = Society 5.0+ (Note 1).
- To achieve this, it is necessary for the public and private sectors to collaborate and invest in key areas that can solve various social issues, such as AI, digital technology, green transformation (GX), biotechnology, and space, in a long-term, strategic manner.
- For the entertainment content industry, a new growth sector, it is also crucial to promote the sustainable global expansion of Japan-originated entertainment content.
- Startups are key players in creating innovations that address social challenges. To foster deep-tech startups capable of solving global social issues, we will promote a virtuous cycle between research and startups, known as Science to Startup.

Comparison of Export Volumes by Industry in Japan

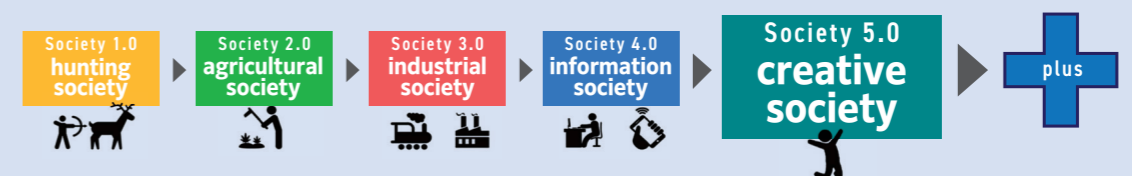


Note: Data from 2022 (except for the petrochemical industry, which is from 2021)
Source: Cabinet Secretariat



(Note 1) Society 5.0

A concept proposed in the 5th Science and Technology Basic Plan (2016), envisioning a new society that follows the hunting society (Society 1.0), agricultural society (Society 2.0), industrial society (Society 3.0), and information society (Society 4.0).

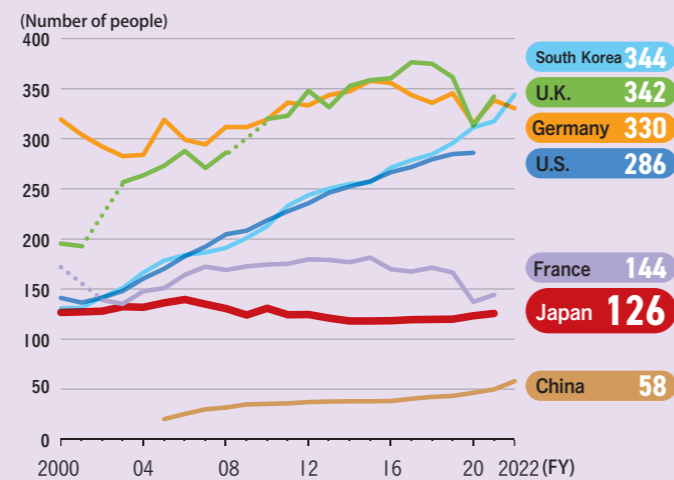


Education and Research



- To realize a nation built on science and technology, it is essential to fundamentally strengthen research capabilities, develop doctoral talent, and ensure that researchers have sufficient funding and time. To achieve this, we must enhance the research capabilities of top universities while broadening the foundation by doubling the budget for scientific research grants early and expanding operational grants for national university corporations.
- To cultivate human resources capable of addressing social challenges and creating new value, it is necessary to transform the educational system and foster diversity, autonomy, and curiosity from the elementary level onwards. Breaking down the divide between the humanities and sciences at the high school level is essential.
- To develop global leaders, it is also important to significantly expand the national scholarship program and actively promote long-term overseas study opportunities for high school and university students.

International Comparison of the Number of Doctorate Holders per Million People



Note: Data for the U.S. is from 2020, for France and Japan from 2021, and for the U.K., Germany, South Korea, and China from 2022.
Source: National Institute of Science and Technology Policy

Image of Fundamental Strengthening of University Research Capabilities

Raising Standards

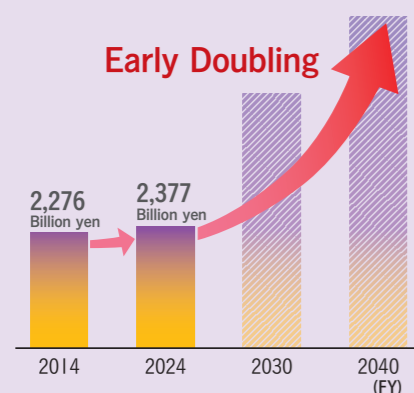
Rapid review, certification, and support for top universities (internationally excellent research universities, etc.)

Broadening the Base

Early doubling of scientific research grants, expansion of basic expenses (operational grants, etc.), and assistance for regional core universities



Image of Expansion of Scientific Research Grants

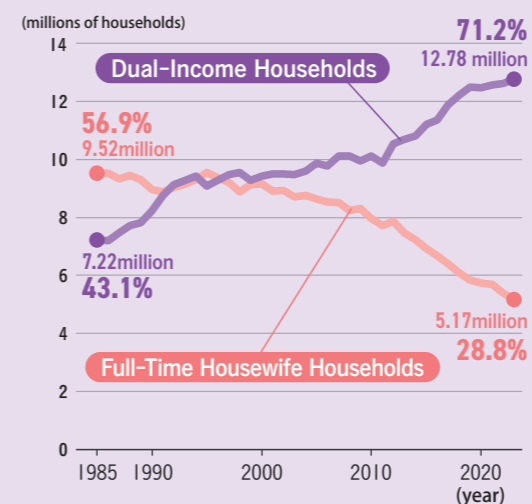


Labor



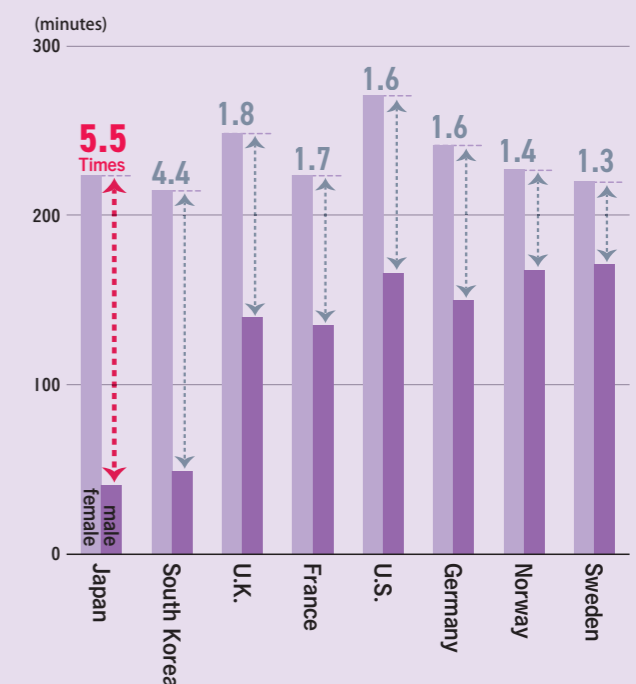
- We aim to establish a virtuous cycle where real wages continue to rise, assuming moderate inflation.
- Improve labor productivity in Japan is essential and this can be achieved by enhancing reskilling, fostering lifelong education and ensuring smooth labor mobility. We urge the Government of Japan to strengthen and enhance employment matching functions, review safety nets, and introduce a new working hours regulation that evaluates and compensates employees based on performance rather than hours worked. Additionally, Companies must establish and continuously review their own "company-specific employment system" optimally combined with "Job-Focused Employment".
- We will accelerate the promotion of diverse talent. With dual-income households representing more than 70%, it is crucial to overcome unconscious biases, including gender role awareness, and work towards creating a society free from gender bias.

Trends in Households with Full-Time Housewives and Dual-Income Households



Source: Ministry of Health, Labour and Welfare

International Comparison of Unpaid Labor Hours (Average per Day per Week)



Source: Cabinet Office



Economic Diplomacy



- While the world is becoming increasingly divided, we will strive to maintain and strengthen a free and open international order based on the rule of law.
- Through proactive diplomacy, Japan will promote strategic partnerships with the Global South, establish bilateral and plurilateral rules in key areas, and accelerate WTO reform, aiming to become a nation built on trade and investment. Through plurilateral cooperation in the “Free and Open Indo-Pacific,” Japan will also contribute to maintaining and strengthening a free and open international order.
- At the same time, Japan needs to strengthen its comprehensive national power, including diplomatic, defensive, economic, technological, and intelligent capabilities. In particular, enhancing economic security is crucial for strengthening economic and technological capabilities. To secure strategic autonomy, Japan must reduce excessive dependence on specific countries for critical resources such as food, raw materials, and energy. Simultaneously, to maintain and enhance strategic indispensability, the government should identify and make intensive investment in key areas, while preventing technological leakage under the principle of “small yard, high fence”.



Conclusion

Ideally, the discussion of *FUTURE DESIGN 2040* should focus on the bright future of our country. However, looking around the world, it is undeniable that divisions and conflicts are becoming more severe, leading us into an era of confusion. At the root of this, there seems to be widespread anger and anxiety surrounding issues of inequality. As the saying goes, “When basic needs are met, people become more courteous,” I believe that only when daily life is stable can people make rational judgments.

So, what should we do for the future? The keyword I have repeatedly emphasized is the “virtuous cycle of growth and distribution.” This is precisely the kind of phrase needed in these times. Without sustainable growth, our economic society cannot be maintained. However, I believe that growth alone does not solve everything. As I have consistently stated, without discussions on distribution, sustainable growth cannot be achieved.

Through the discussions in *FUTURE DESIGN 2040*, Keidanren will continue to face the realization of the “virtuous cycle of growth and distribution” head-on and work towards its achievement.



FUTURE DESIGN 2040

