

# Reform in the Reiwa Era

Japan has entered the Reiwa era, taking a new era name to mark imperial succession for the first time in 30 years. As we ponder this new era, we are forced to concede that Japan's future situation is a very difficult one, encompassing as it does factors including an international situation becoming increasingly unstable, further decline in the nation's birthrate and aging of its population, and the decline of its regional cities. In this issue of *My Vision*, we attempt to reconsider the issues facing Japan in this new era, and, looking towards the next 20 years, identify the most important of these issues and the actions we must take in response.

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Keywords...Restructuring of international politics/economics, Fourth Industrial Revolution, declining population, direction for regional areas, fiscal sustainability, pursuit of a policy mix, failure of Heisei politics to take the right path

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Kazumasa Oguro

Professor, Faculty of Economics, Hosei University

Keywords...Realization of fiscal soundness, valid long-term fiscal estimates, independent financial institutions, a sustainable social security system, a medical macroeconomic slide

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Interviewer: Atsushi Inoue (NIRA Research Coordinator, Researcher), Mari Kawamoto (NIRA Research Coordinator, Researcher), Shota Watanabe (NIRA Research Coordinator, Researcher), and others

# Politics Itself Is the Major Unfinished Business of the Heisei Era

– Rebuilding Party Politics and Becoming a True Advanced Problem-Solving Nation



**Masaki Taniguchi**

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By adopting the imperial era name system, in particular the practice of assigning one era name to one emperor, the Japanese have given themselves the opportunity to deepen their thinking about the past and future of the world, the nation and society over the course of the most appropriate timespan – neither as short as a decade nor as long as a century. Accordingly, in this first issue of *My Vision* in the Reiwa Era, we are departing from our normal focus on a single issue from a variety of perspectives, seeking rather to take a bird’s-eye view of the issues that Japan will have to grapple with into the future, and approaches to solving those issues.

## What are globally shared issues?

The challenges that face us living in this new era include shared global issues and issues that are unique to Japan.

The first of the shared issues that we face is structural changes in international politics and economy. The essence of the conflict between the US and a China that has become increasingly confident as a result of economic development does not lie solely in the trade friction that has now come to the surface, but also in competition for technological and military supremacy. With regard to the course that Japan should pursue, being both an ally of the US and a neighbor of China, Akihiko Tanaka, President of the National Graduate Institute for Policy Studies, explains that the nation should expand the domain in which a liberal international order holds to the greatest extent possible, for example through the CPTPP, a Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and the Japan-EU Economic Partnership Agreement (EPA), while also, in the area of security, maintaining alliances around the axis of the Japan-US relationship.

The second shared issue is the Fourth Industrial Revolution, the process of technological innovation termed “Society 5.0” in Japan, and, within this, the strategy for the development of artificial intelligence (AI). With regard to these issues, Junichi Tsujii, Director of the Artificial Intelligence Research Center of the National Institute of Advanced Industrial Science and Technology, informs us that unlike the AI development strategy of China, which has strong elements of government surveillance of the public, and the US, where AI development is driven by the IT company GAFAs and prioritizes profit, Japan, which has a certain advantage in respect for the dignity of the individual and the utilization of opinions developed through experience on the ground, has the chance to create a new technological society through a collaborative process between humans and AI.

## What are the unique issues facing Japan?

At the same time, the first of the unique issues facing Japan, or rather the first of the issues that Japan is facing in advance of the rest of the world, is population decline. At present, particularly in rural areas, population decline is becoming continuous and progressive, and the situation is increasing in severity. It is said that the population of 50% of residential areas could be halved by 2050. Considering the direction for Japan’s rural areas in this era of population decline, Professor Hiroya Masuda, an Adjunct Professor at The University of Tokyo and the former

Minister of Internal Affairs and Communications, advocates relaxing the principle of self-government by local public bodies that has existed up to the present, and solving the issues associated with population decline through Governance as a Service (GaaS), proposing that a considerable amount of public services, “despite the fact that they have a strong public character, could be conducted not by local governments but by entities such as companies.”

Fiscal sustainability is also a major problem for Japan as an “advanced problem-solving nation.” During the Heisei Era, the ratio of social security expenditure to GDP increased rapidly, but at the same time, the increase in the ratio of national burden to GDP increased only slightly. As a result, Japan now holds an enormous outstanding government debt, in excess of 200% of GDP. Surveying this extremely harsh reality, Professor Kazumasa Oguro of Hosei University proposes the establishment of an independent fiscal oversight organization in order to prevent a politically-motivated optimistic slant being placed on the economic outlook, and the introduction of a “medical macroeconomic slide,” which would take demographic changes into consideration and control growth in medical fees in the medical care system for citizens aged 75 and above.

As we have seen up to this point, these issues are not independent, but are in fact mutually related. From this perspective, one more point that needs to be considered is the pursuit of a policy mix that promotes economic growth through the rejuvenation of industry while also securing people’s livelihoods. Taking the system of “flexicurity” in effect in Denmark as a reference, Professor Takashi Suganuma of Rikkyo University emphasizes the necessity for the realization of fluidity in the labor market by means of organic cooperation between policy areas, including social security policy, industry policy and education policy (flexibility), while also establishing mechanisms to guarantee livelihoods (security).

## **Reiwa is the era in which to remake party politics and realize optimal policy implementation**

The five experts interviewed in this issue of *My Vision* are each experts in different fields. The awareness of the issues that they present has by now been widely shared throughout Japanese society, and their proposed solutions are in no way eccentric, but are rather well-thought out views that should be considered to be generally accepted opinion. Nevertheless, a politics that has not been able to travel this royal road may be the major unfinished business of the Heisei Era. Leaving out extreme movements such as populism, the margin of policy choice in the proposals made by the five experts in this issue is limited. To take flexicurity as an example, while sharing policy objectives, increasing the flexibility of the labor market = emphasizing the logic of the management side, and enhancing functions to secure livelihoods = adopting a focus on the labor side. In other words, there is no more difference than whether one approaches from the Shizuoka Prefecture side or the Yamanashi Prefecture side when climbing Mt. Fuji.

If this is the case, then we must pursue the remaking of party politics, creating a system in which the ruling and opposition parties retain the differences in values on which they are based, while also sharing a broad orientation and producing results on this basis. In order to do so, we will need mechanisms that mobilize the best of the worlds of industry, academia, public administration, finance, labor and the media, and citizens spanning multiple generations, allowing cooperation with bipartisan Diet members who share a sense of crisis in order to spur public debate and provide support for responsible action by the ruling and opposition parties from both the political arena and the private sector.

Can we make Japan, an advanced nation that faces issues, into an advanced nation that *solves* issues, and pass this form of the nation on to the next generation? This is a question of the resolve of each of us living in the Reiwa Era.

Professor Taniguchi is an Executive Vice President of NIRA and a Professor in the Graduate Schools for Law and Politics of the University of Tokyo. He holds a Ph.D. in Political Science from The University of Tokyo. His areas of specialization are political science and contemporary Japanese political discourse.

## The Era of “Zero-Sum-Type Competition”



**Akihiko Tanaka**

President, National Graduate  
Institute for Policy Studies

The Heisei Era offered 30 years of “positive sum” outcomes, allowing nations to mutually reap benefits against a background of high growth internationally. However, there is a strong possibility that the Reiwa era will be an era of “zero-sum-type competition,” in which a gain for one nation means a loss for another. Up to the present, the world has shared the belief that China’s economic development would contribute to world growth. But at the same time, the axis of competition has shifted to a relationship between the US and China that can be considered “a new Cold War”, and this is slowing down the world economy as a whole, strengthening the elements of zero-sum-type competition by shrinking economies. The conflict between the

US and China involves not only trade imbalances and competition in the area of advanced technologies, but also fundamental political and governance-related issues. Ultimately, this is a security issue, but the conflict is not an easy one to resolve.

Japan is a nation that has benefited from world peace and growth, and it would be best for Japan to minimize factors that inhibit peace and growth. From considerations of national interest, in future it will be essential to strengthen cooperation, economic transactions and information exchange not merely with the US, but with a wide range of nations and regions, including Europe, Australia and India. We should make the domain in which the liberal international order holds as wide as possible, even if the friction between the US and China should worsen. From this perspective, Japan can be congratulated for having promoted a TPP even without the US, and having concluded an EPA with the EU.

As US and Europe protectionism intensifies, it is to be hoped that Japan will take the lead in maintaining a liberal international order. At the same time, taking factors such as the US-China conflict and the situation on the Korean Peninsula into consideration, ensuring security and maintaining alliances around the axis of Japan-US relations will continue to be as important to Japan as maintaining its own security capabilities. Power and vigor as a nation will be essential to Japan’s ability to take a leading role in maintaining the liberal international order and, in addition, ensure national security.

In order to realize this, the first essential thing is to make use of diverse human resources. It will be necessary to create a framework that makes it possible for women, the elderly and foreign workers to flourish in their work and establish mechanisms that promote smooth coexistence in the workplace. In addition, in order for Japan to seize the right to speak and the right to take the initiative on the world stage, it will be important for the nation to catch up and take the lead in science and technology, in particular in the competition over information technology, which represents the main battleground in the friction between China and the US. To lag behind in information technology competition would represent nothing less than a threat to Japan’s security and democracy.

Professor Tanaka is an international political scientist. He offers big-picture analyses of the state of the world from a unique perspective, based on objective findings. He graduated from the MIT Department of Political Science with a Ph.D. in political science. Professor Tanaka took his present position in 2017, after serving as the Director of, and a professor in, The University of Tokyo’s Institute for Advanced Studies on Asia, the Executive Vice President of The University of Tokyo, and the President of the Japan International Cooperation Agency. He also serves concurrently as the Director of Japan for UNHCR. Professor Tanaka was awarded the Shiju Hoshō (a medal of honor awarded by the Emperor) in 2012.



## Putting Knowledge Obtained Through AI to Work



### Junichi Tsujii

Director, Artificial Intelligence  
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Science and Technology

Integrating knowledge about AI to advance technological development in new directions: this is the model that Japan should be aiming towards. In the field of information technology, US IT companies dominate the world, and China is creating a huge industry founded on an enormous domestic market. Which AI strategies should Japan adopt in response to this scenario? Japan's standing within the arena of development of AI technologies is in question here.

The development of AI cannot be separated from the sense of values of the country in which it is being implemented (the question of what type of society we wish to create), from culture, and from regional characteristics. AI developed in China tends to have strong elements of public surveillance, which is something unfamiliar to Japanese society. AI development in the US, which is being driven by the huge IT companies GAFAs, tends to prioritize profit. Conversely, in Japan and Europe, where the highest priority is placed on the dignity of the individual, the development of AI can perhaps move in the direction of helping and protecting people, rather than being used for surveillance or profits. Above all, the Japanese are conscious of affirming that there is something that transcends humanity. They also naturally accept the way of thinking that AI should be seen as a partner. The Japanese should, therefore, be particularly well suited to the collaborative work of learning the benefits offered by AI while also teaching AI.

The relevant data is said to be controlled by GAFAs, but in reality, this is not the case. Using smart sensors, it is possible to collect any amount of onsite data, and it is easier to collect public data, such as information relating to medical and nursing care in Japan. Creative discussions that break through paradigms – “If it was like this, it would be better” – have flourished on the ground in Japan. Creativity is innately something that is possessed not only by particularly talented researchers and artists, but also by ordinary people, and those engaged in work in specific fields. At manufacturing sites, for example, engineers and AI will interact to facilitate automation of the skilled techniques conferred by intuition and experience. The opinions obtained at these sites through the collaborative work with AI will be utilized in technological development. As part of this process, the scope of application of automation will expand, and further new technologies will be born.

I believe that Japan, possessing the cultural and social strengths of a respect for the dignity of the individual, together with the ability to incorporate opinions formed at actual sites, will be capable of creating a better future for AI.

Having realized pioneering outcomes in the field of intelligent informatics, particularly in research into natural language processing, and having originated novel methods of text mining, Professor Tsujii is highly regarded internationally as a researcher. His fields of specialization are AI, text mining, computational linguistics, machine translation, and the study of language processing. He is a graduate of Kyoto University, and holds a doctorate in engineering. Professor Tsujii took up his present position in 2015, following periods as an Associate Professor at Kyoto University, a Professor at the University of Manchester, a Professor in The University of Tokyo's Graduate School, and a Principal Researcher for Microsoft Research Asia (Beijing). He serves concurrently as a Professor at the University of Manchester, and is the Chairman of the International Committee on Computational Linguistics. He is the recipient of numerous awards, including the Shiju Hoshu.

# Maturing the Symbiotic Society Through “Governance as a Service”



## Hiroya Masuda

Adjunct Professor, Graduate School of Public Policy, The University of Tokyo; former Minister of Internal Affairs and Communications; former Governor of Iwate Prefecture

In the Reiwa era, the decline in the working-age population of Japan’s regional areas will accelerate, and the lack of sufficient population to maintain local communities will become a conspicuous issue. In 2050, the population of 50% of Japan’s inhabited regional areas will decline by half or more, and 20% of these will become uninhabited. Issues including depopulation, the aging of infrastructure, and the presence of mobility-impaired residents will become increasingly severe. However, most of the issues facing regional areas that have been considered intractable will be able to be solved by the aggressive application of various technologies.

For example, the problem of the mobility impaired could be solved by Mobility as a Service (MaaS), the provision of mobility services using automated driving technologies. MaaS is a new concept that understands mobility as an integrated service, whether the managing entity is public or private. If it becomes possible to offer a range of services including ride sharing and on-demand buses using automated driving technologies, the range of activities available to mobility-impaired elderly people would increase dramatically.

I believe that it is essential for us to embody this concept in all areas of administrative services, i.e. to realize “Governance as a Service (GaaS).” If administrative services could be provided to residents in an integrated fashion, it would not matter whether the provider was the national government, a local government, or an official private sector entity. I believe that the era is approaching in which a large number of public services will be provided not by local governments but by entities such as companies that have an extremely strong public service character. If GaaS can be realized, then organizational autonomy, the principle by which local governments are independent entities and have operated local public administration according to their own intentions and based on their own responsibility, may have reached the end of its role.

Into the future, the question as to how we will establish the autonomy of local residents that will maintain regional public services will become increasingly important. Regional services such as bus companies and financial enterprises are losing participating businesses, and the only way to maintain these services will be to allow the involvement of monopolistic enterprises. In place of this, representatives of residents and local government should actively participate in management, and monitor the situation to ensure that fees do not become unfairly high. The symbiotic society, in which community functions will be enhanced and citizens will mutually support each other while improving their regions, will become a greater focus than it has been up to the present. We should also increase the fluidity of work styles among local public officials, allowing them to “work on public affairs in the morning and perform other jobs in the afternoon.” The realization of increased transparency in information and the maintenance of fora that allow communication to be deepened through the participation of local residents is the steady path towards the maturation of a symbiotic society, but it will ultimately be the fastest one.

Professor Masuda specializes in public policy and contemporary administration. As the Governor of Iwate Prefecture and the Minister of Internal Affairs and Communications, he focused his energies on real issues affecting regional areas, working at the very ground of public policy. His concrete and realistic proposals for the promotion of regional revitalization in Japan have influenced the formation of policy. Professor Masuda entered the Ministry of Construction (now the Ministry of Land, Infrastructure, Transport and Tourism) after graduating from The University of Tokyo’s Faculty of Law. Before taking his present position, he served in a variety of capacities, including as Governor of Iwate Prefecture, Minister of Internal Affairs and Communications and Minister of State for Special Missions. Professor Masuda also serves as an advisor to Nomura Research Institute. He is also the Chairman of the Japan Policy Council and a member of the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan.

## Overcoming the Aging of Japanese Society by Means of a “Medical Macroeconomic Slide”



**Kazumasa Oguro**

Professor, Faculty of  
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As Japan's birthrate declines and its population ages and shrinks, the nation's fiscal problems are becoming increasingly severe. Since the collapse of the bubble in the early 1990s, the fiscal deficit has become chronic, and there has been a continuing increase in the nation's outstanding debt. In order to promote fiscal soundness in the new era, it will be necessary to discuss reforms on the basis of reliable estimates that prudently and steadily forecast the nation's future macroeconomic and fiscal status. However, even the low growth baseline case of the Cabinet Office's medium- to long-term economic estimates specifies a nominal growth rate of 1.5% in fiscal 2028, a figure that considerably exceeds the 0.4% average nominal growth rate for about the past 20 years. In order to prevent an optimistic slant on the economic outlook from political motivations, the advanced nations have established fiscal oversight agencies that function at a specific distance from the political arena. Representative examples include the UK's Office for Budget Responsibility, Holland's Bureau for Economic Policy Analysis, and the US Congressional Budget Office. It is necessary to create such an organization in Japan, and to provide it with the authority to make valid long-term fiscal estimates.

It will also be important to consider how to control the frame of public expenditure. Over the course of the next several years, Japan's baby boom generation will become “latter-stage elderly (75 years and older),” and the aging of the nation's population will advance one stage further. Under the present system, increases in expenditure on social security benefits will be unavoidable. In spite of the fact that per-capita medical expenses increase with age, because the percentage burden to be borne by the patient at the payment window is lower for the elderly than for the working generations, significant increases in expenditure on medical benefits is predicted. Naturally, it will be necessary to increase the consumption tax rate, but at the same time, we must also consider the creation of a sustainable social security system.

I would therefore like to propose the introduction of a “medical macro-economic slide,” based on the macroeconomic slide mechanism that automatically adjusts the level of pension benefits in response to economic and social conditions such as the aging of the population. This would be a mechanism that takes factors such as the demographic makeup of the population into consideration and functions to control growth in medical fees in the Latter-stage Elderly Healthcare System (for citizens aged 75 and above), maintaining the ratio of medical expenditure to GDP at a fixed level(\*). The introduction of this mechanism would make it possible to stabilize finances for health insurance-covered medical treatment. Because the burden to be borne by the patient would be proportional to the cost of the treatment, there would be no substantive increase in the burden at the time of payment. There may, of course, be a backlash from medical institutions against control of increases in medical fees. However, if expenses can be reduced by means of technological innovation, it will not be necessary to reduce labor expenses, which account for approximately half of medical expenses. It is possible to decrease medical costs by introducing ICT to the field and achieving increased efficiency, and the government should be working to establish an environment that promotes this.

(\*) With regard to compensation for medical services, treatment fees will be revised to the standard level in the previous fiscal year minus a certain percentage (the adjustment rate). The adjustment rate will be determined with consideration of factors including the decline in the working population, the increase in the average lifespan, and the status of the economy. As a result, the natural increase in medical fees as a result of aging, etc. will be controlled.

Professor Oguro's main research areas are demographics, public finance and social security and issues related to intergenerational fairness. He completed the doctoral course at Hitotsubashi University's Graduate School of Economics, and holds a doctorate in economics. After entering the Ministry of Finance, he served in a variety of positions, including Assistant Judicial Examiner in the Secretarial Division of the Minister's Secretariat, Assistant Director of the Enforcement Division of the Customs and Tariff Bureau and Research Fellow in the Policy Research Institute. He took his present position after serving in roles including Associate Professor at Hitotsubashi University. Professor Oguro is also a member of numerous government committees, including the Ministry of Health, Labour and Welfare's Health Care 2035 committee.

## Towards the Joint Creation of an “Innovative Welfare State” by Labor and Management



**Takashi Suganuma**

Professor, College of  
Economics, Rikkyo University

The welfare state was created in the 20th century with the goal of guaranteeing the standard of living of national citizens. But the future welfare state will be required to flexibly respond to social changes and also to contribute to technological innovation. As we proceed into the 21st century, the northern European welfare state is transforming into the “innovative welfare state.” Denmark, for example, while maintaining an advanced welfare state, is working to realize sustainable economic growth via innovation, and has created a prosperous society with a low level of social disparity and a high level of happiness among citizens.

“Flexicurity” can be pointed to as one of the reasons that Denmark has been able to transform itself into an innovative welfare state. This is a system that balances flexibility in the employment market allowing workers to easily leave or change their jobs with the security provided by a generous social security system. And the system is indeed generous: for example, if a worker becomes unemployed, he or she is guaranteed unemployment benefits for two years, at 90% of their original wage.

The foundation that enables flexicurity is labor-management relations. Labor unions and management bodies work together to form the framework of the labor market. For example, the standard working conditions for each job type are determined voluntarily in discussions between labor and management, making it possible for them to be rapidly adjusted in response to changes in society. Further, labor and management jointly develop vocational training programs, and strategically create new jobs and occupations. Autonomous frameworks of this type developed by labor and management increase the abilities of all individuals involved, create the desire to take up the challenge of new jobs, and generate innovation. Even if a worker becomes unemployed, their wage is not immediately cut off, and they are able to receive vocational training and have an extremely high chance of finding another job. Because of this, they do not experience anxiety over maintaining their lifestyle. This can be seen as a splendid example of the fusion of social security, education, and industry policy.

In Japan, there is no framework for cooperation between labor and management, and labor-management relations do not provide a mechanism for the generation of innovation. The reason for this is that neither labor nor management has experience of labor unions organized by job type, and have been unable to break away from company-centered labor-management relations. Japan’s traditional employment practices – lifetime employment, promotion based on seniority, company-based unions – are gradually crumbling in the 21st century, but we have not yet created a new order for labor-management relations. Labor and management must commence discussions towards the creation of labor-management relations suited to an innovative welfare state.

Specializing in the study of economic policy and Danish social policy, Professor Suganuma conducts research concerning the sustainability of the welfare state against the background of globalization and population aging. He is advancing consideration of measures to rebuild Japan’s social security system and economic policy and public finance that will support a welfare state. Professor Suganuma holds a Ph.D. in economics from The University of Tokyo. He took his present position in 2005, following terms as an Assistant Professor at Shinshu University and Rikkyo University, and served as the head of Rikkyo University’s College of Economics from 2017 to March 2019.