

## **TOKYO FOUNDATION**

### **CANADAの改革、日本の改革**

IT IS A GREAT PLEASURE TO ADDRESS THE TOKYO FOUNDATION TODAY. I WISH TO THANK YOU FOR THIS INVITATION.

I WANT TO SPEAK TO YOU TODAY ABOUT ECONOMIC AND FISCAL REFORM. BECAUSE OF THE GLOBALIZED WORLD IN WHICH WE LIVE, CONSTANT ADAPTATION OF POLICIES AND PRACTICES, BY BUSINESS, GOVERNMENT, THE MEDIA AND INDEED MOST MODERN INSTITUTIONS, IS NECESSARY.

THIS IS AS TRUE IN CANADA AS IT IS IN JAPAN. SINCE RETURNING TO JAPAN IN 2005, IN FACT, WHAT I HAVE NOTICED MORE THAN ANYTHING ELSE ARE THE VERY SIGNIFICANT CHANGES THAT HAVE TAKEN PLACE HERE. I LIVED IN JAPAN IN THE 1970S, 1980S AND AGAIN IN THE 1990S, IN EACH CASE FOR ABOUT 5 YEARS. I EXPERIENCED PERSONALLY THE HEADY EFFECTS OF THE BUBBLE ECONOMY IN THE 1980S. FIRM IN MY UNDERSTANDING THAT ECONOMIC BOOM IS ALWAYS FOLLOWED BY ECONOMIC BUST, I RECALL

CONVERSATIONS WITH JAPANESE AND FOREIGN INTELLECTUALS AND ECONOMIST DURING WHICH I TRIED TO DETERMINE WHAT WOULD BRING JAPAN'S INCREDIBLE ECONOMIC PERFORMANCE TO AN END. MANY JAPANESE TOLD ME THEN THAT JAPAN HAD INVENTED A NEW ECONOMIC MODEL, AND THAT GROWTH MIGHT STABILIZE, BUT THAT A BUST WAS UNTHINKABLE.

I ALSO OBSERVED DIRECTLY THE DEBILITATING ATMOSPHERE OF THE 1990S, WHEN MANY JAPANESE THOUGHT THAT THE ONLY OPTION WAS TO WAIT THINGS OUT, THAT CHANGE WOULD LEAD TO EVEN MORE DEFLATION AND THE TREAT OF COLLAPSE. I RECALL DEBATES ABOUT WHETHER ECONOMIC CONDITIONS WERE DUE TO POLICY FAILURES – AND THERE WERE MANY – OR STRUCTURAL FAILURES – AND THERE WAS EVIDENCE OF THAT TOO.

IN THE END, IT BECAME CLEAR THAT THE ECONOMIC MODEL THAT HAD PROPELLED JAPANESE GROWTH TO UNPRECEDENTED HEIGHTS FROM THE 1950S TO THE LATE 1980S WAS NO LONGER VIABLE, AND THAT PROFOUND CHANGE, IN PARTICULAR IN THE WAY OF

DOING THINGS, IN FINANCIAL AND MICRO-ECONOMIC POLICIES, IN THE BEHAVIOR OF FIRMS, WAS NECESSARY.

THE JAPANESE PEOPLE ULTIMATELY INSISTED ON REFORM AND CHANGE. AND THE RESULT WAS REFORM AND CHANGE – IN MANY, IF NOT ALL AREAS.

BUSINESSES REALIZED THAT THEY COULD NOT COUNT ON GOVERNMENT BAIL-OUTS. THEY UNDERSTOOD THAT THEY ALONE WOULD DETERMINE THEIR FATE. SO THEY BEGAN BY FOCUSING ON THEIR STRENGTHS AND JETTISONING – SELLING, CLOSING, RESTRUCTURING – WHAT WAS NOT PROFITABLE, AND RETURNING TO THEIR BASIC FUNCTION IN MARKET ECONOMIES: OBTAIN SUFFICIENT RETURN ON INVESTMENT TO ENSURE THEIR SURVIVAL IN THE SHORT AND IN THE LONG TERM.

GOVERNMENT ALSO RESPONDED. MAJOR REFORMS HAVE TAKEN PLACE: IN FINANCE, IN COMPETITION POLICY, IN ACCOUNTING LAW AND PRACTICES, IN LABOUR LAW, IN THE ROLE OF GOVERNMENT IN INDUSTRIAL REVITALIZATION.

CONDITIONS IN THE GLOBAL ECONOMY HELPED AS WELL. DEMAND FOR GOODS AND SERVICES FROM THE EXPLODING CHINESE ECONOMY PLAYED THE MOST IMPORTANT ROLE IN THIS RESPECT, PARTICULARLY THE DEVELOPMENT OF CHINA'S EXPORT-ORIENTED MANUFACTURING WHICH DEPENDS ON JAPANESE INPUTS, TECHNOLOGY AND PRODUCTION EQUIPMENT TO ACCESS GLOBAL MARKETS.

THE RESULTS ARE OBVIOUS: 58 MONTHS OF UNINTERRUPTED MACRO-ECONOMIC GROWTH; THE BEST CORPORATE BALANCE SHEETS IN 30 YEARS; DECLINING UNEMPLOYMENT LEVELS AND SO FORTH.

ON A MORE MICRO LEVEL IT IS ALSO POSSIBLE TO SEE REAL IMPACT OF CHANGED RULES AS WELL: IN THE JULY-AUGUST PERIOD OF THIS YEAR, SUCCESSFUL BID PRICES SUBMITTED BY THE TOP 15 PUBLIC WORKS CONTRACTORS FIRMS ON AVERAGE ACCOUNTED FOR 73.8% OF COSTS ESTIMATED BY THE MINISTRY OF LAND, INFRASTRUCTURE AND TRANSPORT, DOWN SHARPLY FROM THE 95%-PLUS THAT HAD BEEN THE

NORM BEFORE CHANGES TO THE ANTI-MONOPOLY LAW WERE INTRODUCED. THIS MEANS REAL SAVINGS FOR THE TAXPAYER.

THIS IS A GREAT RECORD. BUT THE REALITY IS THAT THIS TURN-AROUND HAS NOT SOLVED ALL OF THE STRUCTURAL PROBLEMS. CONTINUING GLOBAL GROWTH IS ESSENTIAL. AND MORE GOVERNMENT AND POLICY REFORMS ARE NECESSARY.

CANADA HAS HAD EXPERIENCES AND HAS FACED CHALLENGES THAT PARALLEL THOSE OF JAPAN. THAT IS WHY TODAY, I WANT TO TALK TO YOU ABOUT THE PROBLEMS THAT WE FACED IN THE 1990S, AND HOW WE OVERCAME THEM.

IF JAPAN HAS SEEN THE LONGEST STREAK OF UNINTERRUPTED GROWTH SINCE WORLD WAR TWO, CANADA HAS ALSO ENJOYED STRONG ECONOMIC PERFORMANCE IN RECENT YEARS. BUT WE HAVE ALSO MADE TREMENDOUS PROGRESS IN AREAS THAT JAPAN HAS BARELY ADDRESSED, IN PARTICULAR WITH RESPECT TO FISCAL CONSOLIDATION AND THE MANAGEMENT OF GOVERNMENT.

SO, LET ME TELL YOU ABOUT OUR EXPERIENCE, AND DRAW SOME LESSONS FROM BOTH JAPAN'S AND CANADA'S PAST SUCCESSES THAT SUM UP SOME REFORM PRINCIPLES THAT CAN GUIDE OUR COUNTRIES AS WE LOOK AHEAD.

THEN, I WILL TALK ABOUT THE FUTURE. I WILL OUTLINE FOR YOU AN AGENDA FOR FUTURE KEY REFORMS IN CANADA SO THAT WE CONTINUE TO BE AT THE FOREFRONT OF GOVERNMENT POLICY. AND I WILL MAKE A FEW COMMENTS ABOUT WHERE THE DIRECTION OF REFORM NEEDS TO HEAD IN THIS COUNTRY.

### **CANADIAN REFORM:**

AFTER A DIFFICULT PERIOD OF HIGH INFLATION, UNEMPLOYMENT AND RELATIVELY LOW GROWTH IN THE LATE 1980S, THE 1990S WAS A PERIOD OF TRANSFORMATIVE REFORM IN CANADA. FROM THE ADOPTION OF AN INFLATION TARGET FOR MONETARY

POLICY IN 1991, TO A SERIES OF FISCAL REFORMS WHICH SAW OUR FISCAL POSITION GO FROM ONE OF THE WORST IN THE OECD TO A POSITION WHERE WE ARE NOW TALKING ABOUT ELIMINATING OUR NET NATIONAL DEBT ENTIRELY, TO PENSION AND LABOUR MARKET REFORMS, AND TO THE OPENING OF CANADA'S ECONOMY THROUGH FREE TRADE WITH THE UNITED STATES, REFORM WAS THE WATCHWORD, AND RESULTS HAVE BEEN, OVERALL, EXTREMELY POSITIVE. GROWTH HAS ACCELERATED, UNEMPLOYMENT IS DOWN AND LABOUR FORCE PARTICIPATION IS UP, AND OUR LIVING STANDARD HAS IMPROVED MORE THAN ANY G7 COUNTRY. ALLOW ME TO GO THROUGH A FEW OF THE KEY REFORMS:

FIRST, THE CANADA-US FREE TRADE AGREEMENT OF 1989, AND THE SUBSEQUENT NORTH AMERICAN FREE TRADE AGREEMENT IN 1994, CHANGED CANADA INTO ONE OF THE WORLD'S GREAT TRADING NATIONS. FROM 1991 TO 2000, TRADE AS A SHARE OF THE CANADIAN ECONOMY INCREASED BY 34 PERCENT, TO OVER 80% OF GDP, AND ALLOWED CANADA TO

FURTHER SPECIALIZE IN AREAS OF STRENGTH, SUCH AS AUTOMOBILE AND AEROSPACE MANUFACTURING. TWO-WAY FDI GREW EVEN FASTER THAN TWO-WAY TRADE BETWEEN CANADA AND THE UNITED STATES.

MOST CRITICALLY, NAFTA OPENED NEW SOURCES OF IMPORTS AND TECHNOLOGY FOR CANADIANS IN AREAS WHERE CANADA IS NOT A MAJOR PRODUCER, IMPROVED COMPETITION IN THE CANADIAN ECONOMY AND IMPROVED CANADIAN PRODUCTIVITY. TO QUOTE A STUDY DONE BY RICHARD HARRIS OF SIMON FRASER UNIVERSITY IN WHICH HE REVIEWED ALL OF THE RESEARCH AVAILABLE ON THE TOPIC, "THE OVERALL IMPACT ON CANADIAN PROSPERITY OF THE CANADA-U.S. FTA AND THE NAFTA HAS BEEN SIGNIFICANT. IN VIRTUALLY ALL DOMAINS IN WHICH ECONOMIC MEASUREMENT IS POSSIBLE—TRADE FLOWS, INVESTMENT, EMPLOYMENT, CONSUMER BENEFITS, PRODUCTIVITY GROWTH, IMPROVED COMPETITION IN PRODUCT MARKETS AND REDUCED EXPOSURE TO PROTECTIONIST ACTIONS IN THE US EXPORT MARKET —THERE HAVE BEEN IMPORTANT MEASURABLE AND POSITIVE IMPACTS OF THIS AGREEMENT."



SECOND, REFORMS IN OUR EMPLOYMENT INSURANCE AND PENSION SYSTEMS SIGNIFICANTLY IMPROVED THE EFFICIENCY OF THE CANADIAN LABOUR MARKET AND THE SUSTAINABILITY OF OUR PUBLIC PENSION SYSTEM. WHILE I WON'T GO INTO GREAT DETAIL, IT IS IMPORTANT TO NOTE THAT BOTH OF THESE WERE CONTROVERSIAL REFORMS THAT WERE STILL NECESSARY IN THE LONG RUN. ON PENSIONS, CONTRIBUTION RATES HAVE BEEN PROGRESSIVELY INCREASED SUCH THAT THE PUBLIC PENSION SYSTEM IS ACTUARIALLY SOUND. ON EMPLOYMENT INSURANCE, ELIGIBILITY WAS SOMEWHAT RESTRICTED AND INCENTIVES TO WORK INCREASED, SUCH THAT, TO USE THE WORDS OF THE OECD "JOBS STUDY", EMPLOYMENT INSURANCE BECAME LESS LIKE A PARACHUTE AND MORE LIKE A TRAMPOLINE.

HIGHER GROWTH DUE TO OPEN TRADE AND IMPROVED LABOUR MARKET FLEXIBILITY HAVE CONTRIBUTED TO UNEMPLOYMENT RATES HITTING 30-YEAR LOWS AND LABOUR FORCE PARTICIPATION SIGNIFICANTLY INCREASING. ECONOMIC GROWTH

AND EMPLOYMENT GROWTH IN CANADA WAS THE HIGHEST IN THE G7 ON AVERAGE FROM 1997 TO 2005.

PERHAPS THE MOST DIFFICULT, AND YET THE MOST BENEFICIAL REFORMS UNDERTAKEN IN THE 1990S WERE FISCAL. THEY STARTED WITH THE INTRODUCTION IN 1991 OF THE GOODS AND SERVICES TAX, A VALUE-ADDED TAX WHICH REPLACED A NUMBER OF INEFFICIENT TAXES ON MANUFACTURING. MOST SIGNIFICANT HOWEVER WAS THE AGGRESSIVE PROGRAM OF FISCAL REFORMS STARTING IN 1993. FROM A SITUATION IN 1993 WHEN NET GOVERNMENT DEBT WAS OVER 70% OF GDP, NOT MUCH LESS IN RELATIVE TERMS THAN IT IS HERE NOW, WE ARE NOW TALKING ABOUT ELIMINATING NET DEBT ENTIRELY IN LESS THAN A GENERATION. FROM A TIME WHEN INTEREST ON THE NATIONAL DEBT WAS COSTING THE GOVERNMENT 35 CENTS OF EVERY TAX DOLLAR COLLECTED, IT IS COSTING LESS THAN HALF THAT TODAY. CANADA WAS WORRIED ABOUT LOSING ITS FISCAL SOVEREIGNTY TO RATINGS AGENCIES IN NEW YORK; WE ARE NOW TALKING ABOUT RE-INVESTING IN KEY PROGRAMMES, CUTTING TAXES, AND LOOK TO THE FUTURE WITH OPTIMISM.

MANY OF YOU WILL HAVE HEARD ALREADY ABOUT CANADA'S FISCAL REFORMS, BUT ALLOW ME TO MAKE A FEW KEY POINTS ABOUT IT:

- ✓ FISCAL RECONSTRUCTION WAS ACHIEVED MOSTLY THROUGH SPENDING CUTS, THOUGH THERE WERE SOME MODEST TAX INCREASES.
- ✓ ALL LEVELS OF GOVERNMENT BORE PAIN: FISCAL TRANSFERS TO PROVINCES WERE SIGNIFICANTLY CUT BACK, WHICH FORCED FISCAL RECONSTRUCTION TO OCCUR AT THE PROVINCIAL, AND EVENTUALLY THE MUNICIPAL LEVEL AS WELL. BUT EQUALLY, THE FEDERAL GOVERNMENT CUT ITS OWN EXPENDITURES IN A BIG WAY.
- ✓ SPENDING CUTS WERE DIFFERENTIATED THROUGH A THOROUGH REVIEW OF GOVERNMENT PROGRAMS. FOR EXAMPLE, THE INDUSTRY MINISTRY SAW ITS BUDGET CUT ABOUT 60%. SUBSIDIES FOR TRANSPORTATION OF GRAIN IN WESTERN CANADA WERE TOTALLY ELIMINATED. PETRO-CANADA AND AIR TRAFFIC CONTROL WERE PRIVATIZED. ON THE OTHER

- HAND, PROGRAMS TO ALLEVIATE CHILD POVERTY AND TO SUPPORT INNOVATION RECEIVED MORE MONEY.
- ✓ BUDGET TRANSPARENCY WAS INCREASED, AND FORECASTING WAS IMPROVED INCLUDING THROUGH 3-YEAR FISCAL PROJECTIONS, SUCH THAT CITIZENS WERE GIVEN BETTER INFORMATION ABOUT WHAT THE GOVERNMENT WAS SPENDING AND HOW IT WAS DOING IN TERMS OF KEEPING ITS PROMISES.

IT IS IMPORTANT TO NOTE THAT THESE REFORMS WORKED TOGETHER: EACH IN ISOLATION WAS IMPORTANT, BUT IT IS THEIR COMBINED EFFECT THAT MADE THEM WORK, CHANGING THE GROWTH EQUATION IN SUCH A WAY AS THE NEGATIVE IMPACTS OF ONE POLICY CHOICE WERE COMPENSATED BY THE POSITIVE IMPACTS OF ANOTHER. AND THE IMPACT ON ECONOMIC CONFIDENCE WAS MUCH GREATER THAN HAD BEEN EXPECTED: BY TAKING THE TOUGH DECISIONS THAT WERE NECESSARY, THE GOVERNMENT SENT A CLEAR SIGNAL TO CITIZENS AND TO MARKETS THAT THE FUTURE WOULD BE

BRIGHTER THAN THE PRESENT, AND THIS SPURRED CONSUMPTION AND INVESTMENT.

**LESSONS FOR CANADA AND JAPAN:**

THIS BRINGS ME THEREFORE TO WHAT I WOULD CALL OUR FIRST LESSON OF REFORM: SUCCESSFUL REFORM IS A WELL-PREPARED RECIPE, NOT JUST A SERIES OF INGREDIENTS. ONE REFORM ALONE WILL HAVE AN EFFECT, BUT TAKEN TOGETHER, A WELL THOUGHT OUT SERIES OF REFORMS CAN COMBINE AND CREATE A POSITIVE DYNAMIC THAT EXCEEDS THE IMPACT OF EACH.

THE SECOND LESSON I WOULD DRAW FROM OUR RESPECTIVE EXPERIENCE IS A VARIANT ON THAT OLD CLICHÉ “NO PAIN NO GAIN”. A BETTER FORMULATION IS THAT A WORTHY GOAL IS WORTH A LITTLE SUFFERING. ECONOMIC REFORM IS BASED ON THE PRINCIPLE THAT SUFFICIENTLY IMPORTANT ENDS JUSTIFY SUBSTANTIALLY DIFFICULT MEANS. POLITICAL LEADERSHIP NEEDS TO OVERCOME VESTED INTERESTS SUCH THAT CITIZENS OF A COUNTRY ARE WILLING TO COLLECTIVELY PAY THE

PRICE FOR A BRIGHTER FUTURE AND COMPENSATE THOSE WHO BEAR THE MOST PAIN.

THE THIRD LESSON IS A PHRASE I AM STEALING FROM A RECENT ARTICLE IN *THE ECONOMIST* ON REFORMS IN EASTERN EUROPE: “FAIR WEATHER IS NOT A GOOD TEST OF RAIN WEAR”. REFORMS MUST CONTINUE EVEN WHEN THE ECONOMY APPEARS ROBUST TO ENSURE THAT IT STAYS THAT WAY, TO FURTHER INCREASE ITS POTENTIAL TO PRODUCE SUSTAINABLE INCREASES IN LIVING STANDARDS OF A COUNTRY AND MEET THE SOCIAL NEEDS OF ITS CITIZENS. THIS IS PARTICULARLY RELEVANT TO BOTH OUR COUNTRIES THAT HAVE EXPERIENCED MUCH IMPROVED ECONOMIC CONDITIONS.

A FOURTH LESSON FROM THE REFORM EXPERIENCES OF BOTH CANADA AND JAPAN IS, IF YOU WANT OTHERS TO TAKE BITTER MEDICINE, BE SURE YOU ARE WILLING TO SWALLOW IT AS WELL. THIS IS ABOUT THE LEADERSHIP ROLE THAT GOVERNMENT HAS TO PLAY IN THE REFORM PROCESS, MUCH LIKE IT HAS A LEADERSHIP ROLE TO PLAY IN ADOPTING FOR ITSELF STRINGENT ENVIRONMENTAL PRACTICES

OR GOOD LABOUR POLICY: LEADERSHIP BY EXAMPLE IS THE ONLY FORM OF LEADERSHIP THAT IS CREDIBLE. IN CANADA, THIS MEANT THAT DURING FISCAL REFORM, THE FEDERAL GOVERNMENT CUT ITS OWN PROGRAMS BY ABOUT THE SAME PERCENTAGE AS IT ASKED PROVINCIAL GOVERNMENTS TO ACCEPT LOWER TRANSFERS FROM THE FEDERAL GOVERNMENT. IN JAPAN, THIS HAS BEEN DEMONSTRATED BY THE SIGNIFICANT CHANGES THAT PRIME MINISTER KOIZUMI PUT IN PLACE BY MAKING IT HARDER FOR THE GOVERNMENT TO GAIN SUPPORT THROUGH PUBLIC WORKS, THE PLANS TO REDUCE THE SIZE OF THE GOVERNMENT WORK FORCE, AND THE BEGINNING OF MARKET TESTING OF GOVERNMENT SERVICES. THIS LESSON IS PARTICULARLY RELEVANT TO JAPAN AS, AS I STATED BEFORE, MY SENSE IS THAT DESPITE THESE SUCCESSES, THE GOVERNMENT IS BEHIND THE CURVE AS COMPARED TO THE PRIVATE SECTOR IN TERMS OF AGGRESSIVELY PURSUING CHANGE.

A FIFTH LESSON IS THAT THE MORE YOU PLAY THE GAME, THE BETTER YOU GET AT IT. INDUSTRIES THRIVE WHEN THEIR INGENUITY IS PUT TO THE TEST,

WHEN THEY ARE FORCED TO TRY NEW THINGS, INVEST IN NEW TECHNOLOGY AND TRAIN THEIR WORKERS MORE, NOT WHEN THEY ARE ALLOWED TO STAY COMFORTABLE, EITHER BEHIND A WALL OF TRADE PROTECTION OR THROUGH EXCESSIVE REGULATION ON NEW MARKET ENTRANTS. BUREAUCRACIES GET MORE EFFICIENT WHEN CONSTANTLY CALLED TO ACCOUNT BY THEIR POLITICAL MASTERS AND BY THE CITIZENS THEY SERVE.

AS SIXTH LESSON IS ONE EXEMPLIFIED BY JAPAN'S GREAT CRAFTSPEOPLE: IT IS BETTER TO PERFECT ONE THING THAN TO TRY TO DO MANY THINGS POORLY. ECONOMIES SHOULD BE ENCOURAGED TO SPECIALIZE THROUGH OPEN TRADE AND INVESTMENT. GOVERNMENT AGENCIES NEED TO FIGURE OUT VERY CLEARLY WHAT THEY SHOULD DO AND WHAT THEY SHOULD NOT, AND FOCUS ON DOING WHAT THEY DO WELL. MARKET TESTING OF SERVICES IN JAPAN, AND PROGRAM REVIEW IN CANADA, ARE SIMILAR IN THAT THEY ASK THE CRITICAL QUESTIONS: CAN SOMEONE ELSE DO WHAT THE GOVERNMENT IS DOING BETTER, CHEAPER, MORE EFFECTIVELY? AND WHAT IS THE ESSENTIAL



ROLE FOR GOVERNMENT TODAY LOOKING AT THE SOCIETY OF TODAY, NOT AT SOCIETY THE WAY IT WAS TWENTY YEARS AGO?

FINALLY, THE MOST CRITICAL LESSON IS THE ONE THAT THE ELECTORATES IN BOTH OUR COUNTRIES HAVE DEMONSTRATED: DON'T UNDERESTIMATE THE REFORM-MINDEDNESS OF THE PEOPLE. IN CANADA, IT WAS PUBLIC PRESSURE THAT PUSHED THE GOVERNMENT TO MAKE EVEN MORE AGGRESSIVE PLANS TO IMPROVE THE FISCAL BALANCE. IN JAPAN, PRIME MINISTER KOIZUMI PROVED TO THE WORLD THROUGH HIS BOLD ELECTION CALL ON THE ISSUE OF POSTAL PRIVATISATION THAT THE PEOPLE OF JAPAN WANTED REFORM. IF YOUR REFORM IDEAS ARE WELL THOUGHT OUT AND WELL EXPLAINED, THEY WILL BE WIDELY SUPPORTED.

GOVERNMENT IS A MASS-MARKET PRODUCT, NOT AN ELITE PURSUIT. WHILE GOVERNMENT IS A COMPLICATED BUSINESS, THE LEGITIMACY OF GOVERNMENT ACTION AND DECISION DEPENDS ON BEING ABLE TO EXPLAIN WHAT WE DO IN SIMPLE AND TRANSPARENT TERMS TO A WIDE AUDIENCE.

## **REFORMING CANADA'S ECONOMY IN THE FUTURE:**

SO HAVING LEANED SOME LESSONS FROM OUR PAST EXPERIENCE, LET US LOOK AHEAD AT THE FUTURE OF ECONOMIC REFORM IN OUR COUNTRIES. I WILL START WITH CANADA, AND QUOTE FROM A RECENT PRESENTATION MADE BY OUR MINISTER OF FINANCE, JAMES FLAHERTY.

“THE CANADIAN ECONOMY AS A WHOLE IS PERFORMING EXTREMELY WELL AND IS AMONG THE FASTEST GROWING IN THE G7,” SAID MINISTER FLAHERTY BEFORE THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE ON NOVEMBER 23RD. “IF WE ARE TO REMAIN AT THE ECONOMIC FOREFRONT, WE NEED A LONG-TERM PLAN THAT WILL SHAPE CANADA'S FUTURE, AND IMPROVE THE QUALITY OF LIFE FOR FAMILIES, STUDENTS, WORKERS AND SENIORS.”

MINISTER FLAHERTY WENT ON TO ANNOUNCE A PLAN CALLED *ADVANTAGE CANADA*, WHICH BUILDS ON CANADA'S STRENGTHS AND SEEKS TO GAIN A

## GLOBAL COMPETITIVE ADVANTAGE IN FIVE KEY AREAS:

- TAX ADVANTAGE—REDUCING TAXES FOR ALL CANADIANS AND ESTABLISHING THE LOWEST TAX RATE ON NEW BUSINESS INVESTMENT IN THE G7.
- FISCAL ADVANTAGE—ELIMINATING CANADA'S TOTAL GOVERNMENT NET DEBT IN LESS THAN A GENERATION.
- ENTREPRENEURIAL ADVANTAGE—REDUCING UNNECESSARY REGULATION AND RED TAPE AND INCREASING COMPETITION IN THE CANADIAN MARKETPLACE.
- KNOWLEDGE ADVANTAGE—CREATING THE BEST-EDUCATED, MOST-SKILLED AND MOST FLEXIBLE WORKFORCE IN THE WORLD.
- INFRASTRUCTURE ADVANTAGE—BUILDING THE MODERN INFRASTRUCTURE WE NEED.

*ADVANTAGE CANADA* IS BASED ON CORE PRINCIPLES THAT WILL GUIDE THE GOVERNMENT'S FUTURE POLICY DECISIONS. THE PRINCIPLES ARE:

**FOCUSING GOVERNMENT.** GOVERNMENT WILL BE FOCUSED ON WHAT IT DOES BEST. IT WILL BE RESPONSIBLE IN ITS SPENDING, EFFICIENT IN ITS

OPERATIONS, EFFECTIVE IN ITS RESULTS  
AND ACCOUNTABLE TO TAXPAYERS.

**CREATING NEW OPPORTUNITIES AND CHOICES FOR PEOPLE.** GOVERNMENT WILL CREATE INCENTIVES FOR PEOPLE TO EXCEL—RIGHT HERE AT HOME. WE WILL REDUCE TAXES AND INVEST IN EDUCATION, TRAINING AND TRANSITION TO WORK OPPORTUNITIES SO CANADIANS CAN ACHIEVE THEIR POTENTIAL AND HAVE THE CHOICES THEY WANT.

**INVESTING FOR SUSTAINABLE GROWTH.**

GOVERNMENT WILL INVEST AND SEEK PARTNERSHIPS WITH THE PROVINCES AND THE PRIVATE SECTOR IN STRATEGIC AREAS THAT CONTRIBUTE TO STRONG ECONOMIES, INCLUDING PRIMARY SCIENTIFIC RESEARCH, A CLEAN ENVIRONMENT AND MODERN INFRASTRUCTURE.

**FREEING BUSINESSES TO GROW AND SUCCEED.**

GOVERNMENT WILL CREATE THE RIGHT ECONOMIC CONDITIONS TO ENCOURAGE FIRMS TO INVEST AND FLOURISH.

**KEY REFORMS FOR JAPAN'S FUTURE.**

HAVING TALKED A BIT ABOUT THE CANADIAN GOVERNMENT'S AGENDA FOR FUTURE REFORMS, I WOULD LIKE TO OFFER SOME THOUGHTS ON HOW JAPAN CAN BUILD UPON ITS REFORM SUCCESSES WITH THE REFORM PRINCIPLES I OUTLINED IN MIND.

THE GROWTH OF JAPANESE ECONOMY IS AN OPPORTUNITY TO ACCELERATE REFORMS IN AREAS WHERE COSTS AND PAYOFFS ARE HIGH. AS LONG AS THERE HAVE BEEN CONCERNS ABOUT THE SUSTAINABILITY OF THE ECONOMIC RECOVERY IN JAPAN, THERE HAVE BEEN VOICES IN JAPAN THAT HAVE CALLED, WITH SOME JUSTIFICATION, FOR CERTAIN PAINFUL REFORMS TO BE POST-POSTPONED BECAUSE OF THE FEAR THAT THEY WOULD HAVE TOO NEGATIVE AN IMPACT ON THE ECONOMY. IN PARTICULAR, I AM THINKING ABOUT FISCAL REFORMS.

WHILE THERE IS LITTLE DOUBT THAT SIGNIFICANT PROGRESS IN SOME AREAS OF FISCAL CONSOLIDATION HAS OCCURRED, FEAR OF A NEGATIVE IMPACT ON THE MACRO-ECONOMY HAS KEPT PROGRESS TENTATIVE COMPARED TO WHAT CAN BE ACHIEVED. WITH A STRONGER BUSINESS

SECTOR TODAY, AND A CLEARER REFORM-ORIENTATION EXPRESSED BY THE JAPANESE POPULATION, NOW IS AN OPPORTUNITY TO RETHINK BOLDLY THE ROLE OF GOVERNMENT WITH A VIEW TO FOCUSING GOVERNMENT EFFORTS ON WHAT IS NEEDED MOST AND WHAT GOVERNMENT DOES BEST: REDUCING OR ELIMINATING SPENDING IN AREAS THAT ARE NOT WELL SUITED FOR GOVERNMENT INTERVENTION, AND MAKING TAX AND SPENDING MORE EFFICIENT AND MORE TRANSPARENT.

OF COURSE, POLITICAL CHOICES WILL NEED TO BE MADE ON WHICH I CANNOT COMMENT, BUT THERE IS LITTLE DOUBT IN MY MIND THAT THE OPPORTUNITY IS RIGHT FOR JAPAN TO REACH CONSENSUS ON A CLEAR MEDIUM-TERM PLAN SUCH THAT JAPAN'S CITIZENS CAN DECIDE WHAT THEY WANT MOST FROM THEIR GOVERNMENT, UNDERSTAND WHAT IT WILL TAKE TO PAY FOR IT, WHAT THE TARGETS FOR GOVERNMENT POLICY ARE, HOW THEY ARE TO BE ACHIEVED.

SPEED OF FISCAL REFORM IS IMPORTANT, BUT EVEN MORE CRITICAL IS TO HAVE A CLEAR PLAN, TO STICK

TO IT, AND TO ENSURE THAT THE PEOPLE KNOW WHAT YOU ARE DOING AND WHY. I AM NOT ADVOCATING FISCAL REFORMS THAT ARE SO RAPID THAT THEY HAVE A SIGNIFICANT NEGATIVE IMPACT ON PEOPLE'S INCOMES. WHAT I AM ARGUING FOR IS THE NEED FOR THE PLAN TO BE MADE CLEAR, WHICH WILL INSTILL GREATER CONFIDENCE IN JAPAN'S ECONOMIC FUTURE AMONGST CITIZENS AND BUSINESSES. A CLEAR PLAN WILL CHANGE THE DYNAMIC FROM A VICIOUS CYCLE OF RISING DEBT TO A VIRTUOUS ONE OF RISING CONFIDENCE.

ALSO, AND I THINK THE PRIME MINISTER IS ABSOLUTELY RIGHT WHEN HE TALKS ABOUT THIS, IT IS IMPORTANT TO USE FISCAL REFORMS AS A WAY TO RE-THINK THE ROLE OF GOVERNMENT IN SOCIETY AND TO LOOK AT THE FULL PACKAGE OF TAX, GOVERNMENT SPENDING, PENSIONS AND SOCIAL SECURITY. THIS IS NOT ABOUT THE GOVERNMENT DOING MORE OR LESS, BUT RATHER ABOUT ADAPTING THE ROLE OF GOVERNMENT TO A CHANGING JAPAN. CANADA'S EXPERIENCE HAS SHOWN THAT DESPITE THE DIFFICULT INITIAL PERIOD OF FISCAL REFORM, BUT THERE IS A LONGER-TERM

DIVIDEND IN TERMS OF INCREASED CAPACITY ONCE AGAIN FOR THE GOVERNMENT TO MAKE POLICY CHOICES, WHETHER THEY BE TAX CUTS OR SOCIAL POLICY INVESTMENTS. INACTION CAN ONLY LEAD TO FURTHER CONSTRAINTS ON GOVERNMENT CHOICE.

I WOULD ALSO SUGGEST THAT COMPETITION IS SOMETHING TO BE EMBRACED NOT TO BE FEARED, WHETHER WITHIN JAPAN OR FROM ABROAD. IF THERE IS ONE THING I HAVE LEARNED ABOUT THE PEOPLE OF THIS COUNTRY IS THEIR REMARKABLE RESILIENCE AND INGENUITY, AND THERE IS NO DOUBT THAT MORE COMPETITION WILL ALLOW MORE OF THESE TO SHINE. A MORE COMPETITIVE MARKETPLACE PUTS THE NEEDS OF CONSUMERS AND WORKING FAMILIES TO THE FOREFRONT, ENCOURAGING IMPROVEMENTS IN PRICE AND QUALITY AND INCREASING REAL LIVING STANDARDS. WHILE TRANSITION IN INDUSTRIES WHICH HAVE BENEFITED FROM PROTECTION CAN BE PAINFUL, PUTTING THE NEEDS OF PRODUCERS BEFORE THOSE OF CONSUMERS SERVES ONLY TO PROTECT VESTED INTERESTS AND MAKES EVERYONE THE POORER.



FINANCIAL SERVICES IS A GOOD EXAMPLE: THE FINANCIAL SERVICES AGENCY HAS EMBARKED ON AN AMBITIOUS PROGRAMME TO BRING FINANCIAL SERVICES REGULATION IN JAPAN IN LINE WITH INTERNATIONAL BEST PRACTICE, WITH A VIEW TO IMPROVING THE QUALITY, SECURITY AND VARIETY OF SERVICES AVAILABLE TO THE JAPANESE POPULATION. AS THE FSA BUILDS ON ITS SUCCESSES, IT IS IMPORTANT TO REMEMBER THAT NOT ALL PERCEIVED PROBLEMS REQUIRE A REGULATORY SOLUTION, AND THAT CONSUMER PROTECTION CAN BE ACHIEVED AT THE SAME TIME AS ENHANCING CONSUMER CHOICE AND STIMULATING PRODUCT INNOVATION.

WHILE I AM NOT ADVOCATING A WHOLESALE OPENING OF THE ECONOMY OVERNIGHT, I AM CONFIDENT THAT A PROGRESSIVE OPENING OF THE MOST PROTECTED SECTORS OF JAPAN'S ECONOMY WILL BE TO JAPAN'S BENEFIT. A GRADUAL OPENING OF JAPAN'S AGRICULTURAL MARKETS TO MORE PRODUCTS FROM SECURE SUPPLIERS LIKE CANADA WILL BENEFIT CONSUMERS, PARTICULARLY THOSE AT THE LOWER END OF THE INCOME SCALE, THROUGH LOWER PRICES AND MORE CHOICE, AND ENCOURAGE JAPAN'S AGRICULTURAL SECTOR TO FOCUS MORE ON

BECOMING AN EVEN MORE COMPETITIVE PRODUCER OF THOSE HIGH-END PRODUCTS FOR WHICH IT IS JUSTIFIABLY FAMOUS, LIKE ITS WORLD-CLASS STRAWBERRIES AND PEACHES.

**CONCLUSION:**

THE POINT OF THIS TALK WAS NOT TO LECTURE YOU ON WHAT JAPAN SHOULD DO. RATHER, I HOPE THAT I HAVE BEEN ABLE TO DEMONSTRATE, THROUGH A DISCUSSION OF PAST REFORM SUCCESSES IN BOTH JAPAN AND IN CANADA WHAT CONSTITUTES GOOD REFORM AND ITS BENEFITS. I WAS ABLE TO IDENTIFY FOR YOU SOME AREAS FOR FUTURE WORK IN BOTH OUR COUNTRIES, AND I AM CONFIDENT THAT THE ADMINISTRATIONS OF BOTH PRIME MINISTER HARPER IN CANADA AND PRIME MINISTER ABE HERE IN JAPAN HAVE THEIR EYE ON THE BALL WHEN IT COMES TO MAKING CHANGES THAT WILL IMPROVE THE ECONOMIC AND SOCIAL OUTCOMES AVAILABLE TO THE CITIZENS THEY REPRESENT.

I WELCOME YOUR QUESTIONS.