

## **The Challenges Before Industrialized Countries**

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The surroundings of U.S.-Japan relations transform every decade. This is so clear that there is little need to look back on the forties, the fifties and the sixties. The time around 1970 when I was serving as the First Secretary and Financial Attaché of the Embassy of Japan in the United States marked a transitional period in U.S.-Japan relations. Okinawa was returned, economic friction was gearing up, America suspended the exchange of dollars for gold. Later, the advanced countries floated their currencies, and U.S.-Japan economic friction became even more intense.

Then in the 1980's late Prime Minister Masayoshi Ohira, for whom I served as chief assistant, advocated the concept of closer ties between countries along the Pacific Rim and organized PECC, the Pacific Economic Cooperation Council. We have seen economic cooperation in the Asia-Pacific region deepen since that time, particularly since the start-up of the Asia-Pacific Economic Cooperation (APEC) ministerial meetings.

Around 1990, the strength of the Japanese economy was much publicized. On the other hand, this led to serious concerns in the United States and so called "Japan-bashing" was observed.

Today, many of Japan's traditional systems are showing signs of trouble, so much so that the country is now gripped by a sense of crisis. Though advances in the telecommunication and service industries have in the meantime enabled the U.S. economy to pick up substantially, underneath, the U.S. faces various troubles of its own, including a sharply widening income gap between the rich and the poor, and mounting foreign debts.

I would draw your attention to the fact that the dollar which had been at 360 yen in 1970

dropped to two-thirds that amount, 240 yen, in the 10 years thereafter, and then to one-third that amount, 120 yen, in the following 10 years. By 1995, the dollar had dropped to one-fourth its original amount or 90 yen, but has since recovered to the level of 120 yen.

Looking at the background of the changes, U.S. net foreign claims have been decreasing since 1987, whereas net foreign debt reached 870 billion by the end of 1996. On the other hand, Japanese net foreign claims amounted to 861 billion dollars (103,359 billion yen: exchange rate 1 dollar to 120 yen) at the end of 1996.

We, FAIR, are currently organizing a study of the issues facing advanced industrialized nations such as Japan, to include 70 scholars and other knowledgeable members. We think the advanced industrialized countries of the United States, Europe, and Japan have entered into a new age characterized by softnomization where information and services play a crucial role, and are now facing various problems in the midst of globalization.

The reader may also refer to the following works, which were either written or edited by the author. (Those followed by a "(J)" are in Japanese only.)

- (J) *Reports of the Nine Research Groups of the Ohira Policy Research Project* (1980)
- Nagatomi, Yuchiro, *Beyond the Modern: The Legacy of the Late Prime Minister Ohira* (1983) (J)
- Nagatomi, Yuchiro ed., *Masayoshi Ohira's Proposal: To Evolve the Global Society* (1988)
- Nagatomi, Yuchiro, *Japan During the Cultural Revolution* (1995) (J)
- Committee for Japan's Strategy, FAIR, *Japan's National Interests Defined: Global Strategies for the New Millennium*

## 1 Beyond industrialization

In the wake of the industrial revolution, America, Europe, and Japan have achieved modernization and industrialization. In the fifties, the United States achieved an "affluent society." So did Europe in the sixties and Japan in the seventies.

Galbraith, John Kenneth, *The Affluent Society* (1958).

However, the process of industrialization ignored both man's relation with his fellow man (our humanity) and man's relation with his natural environment. In doing so, it created people who were alienated from society, and problems of resources and environmental degradation. In short, it worsened the conditions for survival.

Club of Rome, *Limits to Growth* (1972).

History shows that mankind has gone through stages, from the hunter-gatherer period to agriculture, and then to mercantilism and industrialization. Now the advanced countries are entering a new stage of civilization, the stage that will take us a step beyond industrialization.

Bell, Daniel, *The Coming of Post-Industrial Society : A Venture in Social Forecasting* (1973).

The reason the countries of Asia are developing is because they have begun to industrialize and they are facing various problems in the process of industrialization.

I think this new post-industrial civilization that is upon us will see the advanced countries specializing in information and services. That is why I call this process "softnomization," and the economic management that it will require "softnomics."

Ohira Policy Research Project , *Report of the Research Group on "Economic Management in the Age of Culture"* (1980). (J)

Nagatomi, Yuchiro, *Softnomics* (1983). (J)

Ohira Policy Research Project , *Report of the Research Group on Economic Structural Change and Policy* (1983). (J)

In previous ages, people attempted to harmonize their lives with nature, they took the "natural" or "soft" path. In the age of modernization and industrialization, we have taken the "hard" path of machinery and artifice, a point that I will discuss in more detail in a moment.

The "hard" path in science and technology has resulted in a "qualitative" and "quantitative" expansion in the living territory of human beings, but while we thought that the quantitative expansion would be limitless, we have in fact reached "the barrier of the Earth's limited tolerance."<sup>1</sup> This has caused the resource and environment problems we are now experiencing. Meanwhile, the scientific and technological advances that would enable further quantitative expansion have stagnated.

In this new age, we must respect and maintain the benefits that we have inherited from industrialization while seeking to overcome its problems. In other words, we must make the "hard" path a bit softer, we must seek the harmony of the "hard" and "soft" to be found in the "holonic path."<sup>2</sup>

Robbins, Emory, *Soft Energy Path* (1977).<sup>3</sup>

## **2 The contrasts between the West and Japan**

The United States, Europe, and Japan have all been successful in industrializing their economies and achieving affluent societies, but the methods behind their success have been different and this, together with the difference in their relations with their neighbors, has led to stark differences in how these challenges manifest themselves, and indeed which challenges they should seek to overcome.

Japan is currently engaged in reforms [of its government administration, fiscal policy, social security, economic, financial, and educational systems. The reforms to the financial system seek to create markets that are "free," "fair," and "global." Though the intention of reform is] to create US-style markets, this will not be an easy task in as much as it will require a change in Japanese society and in the perceptions of the Japanese people. Two or three

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<sup>1</sup> The barrier of the Earth's limited tolerance: Skyrocketing oil prices, rapid consumption of non-renewable natural resources, higher concentrations of carbon dioxide in the atmosphere, global warming, marine pollution, forest desertification, and absolute shortages of food.

<sup>2</sup> "Holon" comes from "holos" (the whole) and "on" (the individual). It was first coined by Arthur Koestler.

<sup>3</sup> Robbins' "soft path" is considered in opposition to the "hard path" of modernization and industrialization, and as such has a tendency to symbolize a regression to an earlier age.

examples should illustrate the challenges to be overcome.

1. US-style markets involve sellers and buyers who are in a confrontation, but in Japan we tend to a "me-too," "herd" style of action in which everyone sells or everyone buys at the same time.
2. In US-style markets there is strict individual "accountability," but in Japan, as the word *motareai* (mutual dependence) eloquently describes, accountability is vague and many of our words and actions are designed to shunt responsibility off onto others.
3. In the US the competition is fierce and free, based on an equality of opportunity. It is a rigorously "dog eat dog" society in which there are clear winners and losers. This has expanded the gaps between rich and poor. In Japan, however, our society is based on the idea of "we're all in this together" and therefore emphasizes an equality of results. That is why Japan has the most egalitarian income distribution in the world.

I would draw your attention in this regard to the fact that around 1980 US CEOs had incomes that were about 40 times what their average employees made, but by about 1990 that had expanded to 100 times<sup>4</sup>, and recent estimates put it at about 180 times<sup>5</sup>. In contrast, the average Japanese boss makes 12-13 times the salary of an entry-level hire, and only about 7 times the entry level employee after taxes.

Such differences between the Japanese system and the systems of the West stem from the process of "modernization."

*(1) Driving forces in European and American modernization and industrialization*

In Europe and America, the driving force behind modernization and industrialization was the resurrection in the sphere of science and technology of the Greek idea of "atomism" in the seventeenth century. In the political, social, and economic spheres, there was a corresponding idea of "individualism."

Underlying this individualism is a strong "anthropocentrism" in man's relationship with God. Modern Western society is imbued in all of its aspects with this anthropocentrism, and it was this that gave rise to democracy, with its basic respect for freedom and human rights.

"Atom" and "individual" mean basically the same thing. One is Greek, the other Latin. Based on Cartesian ideas about "dichotomy," the West reduced phenomena down into "atoms," "individuals," and other "singular" factors (factor reduction) and considered their

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<sup>4</sup> Business Week, May 6, 1995 edition.

<sup>5</sup> Nihon Keizai Shimbun, October 32, 1996 edition.

totality to be the behavior of the whole.

Ohira Policy Research Project, *Report of the Research Group on "The Historical Development of Science and Technology"* (1980).

This reduction of phenomena to singular factors made mechanical processing possible, which resulted in the advances seen in mechanization and human artifice, enabled the West to pursue functionalism and economies of scale, and resulted in the concentration, integration, and expansion of systems, both in the realm of science and technology and in the realm of society and economy.

In economics, this took the form of "mass production." People were assumed to have homogenous needs which could be filled with homogenous products. The question was who could manufacture them quickly and in quantity.

In politics, this took the form of the "rule of the majority," a system for mechanically processing people's opinions and wants that again assumed homogeneity—each vote was of equal worth.

In architecture and urban planning, the "authoritarianism" that produced the symbols of the privileged classes in pre-modern times gave way to the "functionalism" of today's factories and Brasilia.

In modern Western medicine, sickness was understood as "a failure of a part of the of the body" and healers tried to repair the broken part. This eventually led to technologies that considered the parts of the human body to be "interchangeable," and thus we arrived at organ transplants and artificial organs.

Employment patterns as well saw people as having "homogenous functions" and therefore being "interchangeable parts." Jobs were equivalent to functions, especially in the United States where unions grew up around work functions.

## *(2) Rough contrasts between culture and civilization in Japan and in the West*

Japan actively imported Western civilization in order to catch-up in the race towards industrialization and modernization, but the individualism that in imported was only for show. In reality, "contextualism" continued to inform Japanese culture and was responsible for its success.

Hamaguchi, Eishun, *Japan as a Society of Contextualism* (1982).

The modern West uses dichotomies to highlight contrasts—the self and the other, the winner and the loser, and A and not-A. Japanese culture is more of a circular, tripolar structure like

the game "rock, scissors, paper." The rock smashes the scissors, the scissors cut the paper, and the paper covers the rock-everyone wins once.

Japan uses 'we' often rather than 'I', trying not to distinguish the self and the other, and it prefers to have no absolute winners or absolute losers. It also prefers to leave gray zones, where the relationship between things is neither black nor white, neither A nor B. You can see this in the relationship between a Japanese house and garden, in the way wind chimes, screens, and verandas are used to blur the distinctions. In fact, our word for "home," *katei*, is written with two characters meaning "house" ( ) and "garden" ( ). Both are an integral part of the whole.

Hayashiya, Tatsuzaburo and Shunsuke Kato, Tadao Umesao, and Michitaro Tada, *Japanese Wisdom* (1962). (J)

Two words that define Japanese culture are *ningen* ( ) and *sogo* ( ). *Ningen*, which is usually translated "human" really has no equivalent in Western languages. It consists of two characters, the first meaning "person" ( ) and the second meaning "relation" or "between" ( ). A human, therefore, is seen as a "person in context." The word, and the idea, emphasize the relational nature of humanity.<sup>6</sup>

Japanese religion seeks humanity, humanness, and humaneness.

Bendersan, Isaac (Shichihei Yamamoto), *The Japanese and the Jews* (1970). (J)

The word *sogo* is another that we Japanese like to use, but is difficult to translate into Western languages. The closest would be "coordination" which refers to many muscles of the same nature working together in harmony.

In the West, Hegelian dialectics refer to the *aufheben* (synthesis) of the power of two distinct objects. In Japan, we prefer neither clear distinctions nor integration ( ; *togo*, synthesis) through power. Like the third god of ancient mythology, when the two hard-working gods are in conflict, we step in to pacify them and achieve a *sogo* (coordination, harmony).<sup>7</sup>

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<sup>6</sup> "Relation" is used here, but words like "between" and "among" could just as easily be substituted. The point is that none of them really expresses the full meaning of the Japanese term. The term used by scholars is "contextualism."

<sup>7</sup> It is interesting to note that *Kojien*, a standard dictionary of the Japanese language, devotes an enormous amount of space to usage examples for *sogo* but the only usage example for *togo*, the word we have been translating as "integration" or "synthesis," is "Integrated Military Staff Meeting," a rather domineering, authoritarian group.

Though the pronunciation is different, the character expression relationships ( ) is found in many important Japanese words. For instance, *ningen* ( ; human), *seken* ( ; society or the world), and *nakama* ( ; friends, buddies). This gives some indication of how important relations and context are to us. Likewise a "mistake" is a *ma-chigai* ( ; literally "wrong relation") and one who misses a relationship or leaves it out, a *ma-nuke* ( ), is a fool. We also have a deep respect for the *ki* ( ), or the air, atmosphere, spirit that informs these contexts and relations. We prefer people whose nature ( ; *kidate*, "spirit stance") is good; when we are stuck ( ; *kigatsumaru*, "spirits clogged") we seek diversions ( ; *kibarashi*, a clearing of the spirit) and relaxations ( ; *kisanji*, a dispersion of the spirit).

Another important point of emphasis is the *bun* ( ) or lot or share of a relationship. Having the correct portion means to know one's place; having an excess portion is to be above one's means or to have something undeserved; fulfilling one's portion is to do one's duty. Our *bun* is something that comes into play in such word's as "self" ( ; *jibun*, own share), job ( ; *shokubun*, work share), social status ( ; *mibun*, personal share), and mood ( ; *kibun*, spirit share).

Professor Ezra Vogel of Harvard University has said that in the United States it is possible for the victor to monopolize the pie as long as there is an equality of opportunity and the rules of "fair play" is adhered to. In Japan, we emphasize the equality of results and therefore operate under the rules of "fair share" in which the pie is divided ( ) before the competition so that all may be satisfied.

Vogel, Ezra, *Japan As Number One* (1979).

In Japan, criticism of someone's opinion can often be taken as a personal attack, and so there is little taste for clearly delineating differences and "debating." Rather, friendly "discussion" and "conversation" is preferred.

One of the reasons why we Japanese often omit subjects in our sentences and prefer the passive voice-both of which make it hard for Westerners to understand what we are saying-is that we consider it a virtue not to make ourselves conspicuous. This again is in contrast to the West.

It is an oft-cited truism that Western culture is a "culture of sin" against an absolute god where Japanese culture is a "culture of shame" in relations between people.

Let us look briefly at some of the differences between Japan and the United States that result



from this.

1. Organizations in the United States are structured like a tree (trunk and branch structure). There is a top leader who has the power to integrate and lead in a clear form units that have been given clear responsibilities (authority and accountability). In Japan we use what has been described as a "rhizome structure" in which individual members are acknowledged and harmony is sought out of diversity so that the whole is coordinated (*sogo*).
2. In employment, America hires people for jobs. In Japan, we hire people-people who will be part of the "community" of the firm. Our unions are company-specific rather than job-specific.
3. In politics, Western democracies use the principle of majority rules to debate ideas and, with the force of a majority decision, to integrate (*togo*) minority opinions into the majority. In Japan, we have a legislature that does not debate, and if the majority tries to force a measure through, you can be guaranteed that the newspapers the next morning will be screaming about how the "majority has run rough-shod over democracy."

### **3 Softnomization seeks qualitative improvement rather than quantitative expansion**

We who live in affluent societies are now questioning the quality of our affluence. We are asking ourselves what constitutes real affluence.

Gabor, Dennis, *Mature Society* (1972).

According to a 1958 public opinion survey by the Japanese Prime Minister's Office, during the high growth period people sought "material affluence" rather than "spiritual affluence," but by the 1976-1978 surveys the two were roughly on par at 40-41% each, and by 1996 58.8% sought spiritual affluence compared to 27.9% who sought material affluence.

According to survey conducted around 1982 by the Research Group on European Values, most Europeans had a negative reaction to the words "material," "production," and "technology"-the very things that supported European industrialization.<sup>8</sup>

The social psychology that supported high growth was an orientation towards production as the highest good, but in Japan this coupled with the traditional idea that saw virtue in

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<sup>8</sup> Asahi Shimbun, January 31, 1983.

working for society. This led to the development of a situation in which hard work became a reason for living. Today's young people, however, those who grew up in a society that was already affluent, are seeking more carefree life-styles.

Murakami, Yususuke, *The Age of the New Intermediate Class* (1984). (J)

When there were shortages of goods, needs were necessarily "homogenous."

In 1957, Japan called a black and white television (initially a vacuum cleaner), a washing machine, and a refrigerator the "three sacred treasures" that every home aspired to own. By the time the high growth period wound down in 1966, this had changed to the "3 C's," for color television, cooler (air-conditioner), and car (1,000 cc "national car"). Needs and wants were uniform.

But as material affluence was attained, people began to search for something different rather than "just the same as everybody else." They began to make voluntary, subjective decisions. Uniforms were something that Japan imported from West Europe in the process of modernization and industrialization, but we too have come to use them less than we used to. It is interesting to note, however, that uniforms are widely used in the industrializing countries of Asia.

As consumer needs grew more varied, scale merits became less pronounced and mass-production gave way to "wide variety, small-lot production" (a neologism that I coined).

The softening of the economy: As progress is made in information technologies and services, service industries and other "tertiary sectors" come to account for a larger portion of the economy. In the United States, they are responsible for about 70%; in the UK, more than 60%; and Japan and France, about 60%.

Japanese Economic Planning Agency, Long-term Vision Committee, *Japan in 2000* (1982). (J)

Colin Clark divided industry into primary, secondary, and tertiary sectors and made the following prediction: "As income levels rise the weight of the working population in primary industries declines while that in secondary and tertiary industries rises. Tertiary industries grow far faster than secondary, and when the weight of secondary industries reaches a certain level, they begin to decline."

Clark, Colin, *The Conditions of Economic Progress* (1940).

Current economic statistics were created in the nineteenth century when the production of goods was at the center of the economy. There is now an obvious need to overhaul our statistics. For example, GNP statistics consider the productivity increases in the service sector to be zero, so that only price rises are left. When service industries expand, therefore, GNP is automatically reduced.

Nagatomi, Yuchiro ed., *How to Read Economic Indicators* (first edition, 1983). (J)

Even in science and technology, quantitative expansion is giving way to "softening," "information orientation," and qualitative improvement. One example is the development of "fine technologies."

Many systems are moving from concentration, integration, and magnitude of size to smaller, more decentralized versions.

Energy and cities are dispersing, and new questions are being raised about the modern state and its social systems.

Now it is time for government to critically think what it should terminate, not what it should promote.

Europe seeks to create a European Union (EU) that will restrict the sovereignty of the modern nation state, and as part of this plans that in January 1999 participating countries will abandon their monetary sovereignty and move to a single currency (to be called the Euro).

Industrialization, computerization, and internationalization are bringing down national borders, but there has also been more ethnic and tribal solidarity, and a greater sense of independence as a people. One of the questions to be asked is whether the global society will choose diversity or integration.

The modern age has sought functionalism in many different areas, but today it is rethinking the concepts of rationalization, efficiency, and productivity.

Taylor's scientific management methods were at one time popular, but today there is a new emphasis on humanity and humaneness. At one automobile factory, it was found that rather than going with the cheapest layout, they could reduce the defect rate by putting three workers together at a single point and allowing them to "gab." It seems that "gab" has its own rationality.

Western medicine has recently seen the advocacy of "human biology" in London, an idea that looks at a person as an entire human existence and tries to incorporate into medicine the

findings of sociology, social psychology, and even anthropology.

In architecture and urban planning, the functionalism of Brasilia and Chandigarh has been rejected. Today's architects ask themselves what constitutes a "humane space."

Dr. Jane Jacobs, an American sociologist, has found a correlation between an increase in urban park space and juvenile delinquency.

Professor Robert A. Aldrich has done statistical studies that indicate that when urban planning and road design fail to take account of "human lives," there is an increase in the number of under-developed children on the one hand and traffic accidents on the other.

As human needs diversify and science, technology, social systems, and economics become "soft," one must wonder if politics will be able to maintain the "modern democracy" that mechanically processes opinions by the principle of majority rule.

The West and Japan are both questioning the principles that were behind successful modernization. Perhaps both are moving towards societies of "individuals within multifaceted contexts."

Yamazaki, Masakazu, *The Birth of Soft Individualism* (1984). (J)

#### **4. Changes in the financial structure and the emergence of "structural excess money"**

When financial panic hit in 1929, all of the advanced countries were in the process of industrialization. Companies needed large amounts of funding for their production activities, and they depended mainly on banks to raise it.

By contrast, when Black Monday rolled around in 1987, industrialization had been completed and the advanced countries had far more money than they needed for their production. I call this "structural excess money" and this caused economic bubbles in various parts of the world.

What I refer to as "structural excess money" is the money that moves beyond geographical and temporal constraints, freely and quickly sliding through spot and futures markets, whether they be for foreign exchange, money, stock, gold, oil, or agricultural commodities.

Some factors behind the emergence of structural excess money were:

1. The reduction in the funding requirement for investments and inventories required per unit production, a result of softnomization.

2. The achievement of industrialization and consequent rise in the retained earnings of companies, giving them more of their own money with which to meet their funding needs and opening up a much wider variety of fund-raising means, which resulted in less dependency on bank borrowings and more need to invest their own surpluses.
3. The increase in personal financial assets in affluent societies (in Japan, personal financial assets total 1,200 trillion yen), and a stronger desire for higher gains on the part of individual investors.

February 1990 announcement by the "Financial Structure and Policy Effects Research Group."

The result of this was to force banks to develop new lending channels, which inspired aggressive moves into real estate lending, and even in the United States produced a stock market crash. Financial institutions took on much more risk than before, as can be seen from the US savings and loan debacle and the housing finance company failures in Japan. Japanese banks in particular were left with mountains of non-performing loans in the wake of the bubble, which it has taken them an extraordinarily long period of time to work off. Indeed, they continue to suffer from defaults even today.

Recently the structural excess money emerged as the result of industrialization of advanced nations has been hitting on the Asian developing countries which are still on the way to industrialize.

In the IMF/ World Bank Annual meetings held in Hong Kong this September, I heard the discussion between Malaysian Prime Minister Mahathir and George Solos related to Thai Bart Crisis with great interest .

There is no strong linkage between structural excess money and the real economy, but large, abrupt shifts are dangerous to the world's economic systems. To prevent this, Professor James Tobin has suggested that we "sprinkle sand" on the markets (the Tobin Tax), but there are worries that this would also impair the smooth movement of legitimate funds.

The basic means for counteracting structural excess money is to use those funds that would otherwise be funneled into the money game for the purpose of improving production activities. This might take the form of an increase in direct private sector investments in and medium to long term loans to for the Asia-Pacific region. Such investments and assistance would decrease the total amount of structural excess money in circulation.

To funnel structural excess money into Asia will require that the advanced countries improve their understanding of and information gathering capabilities in Asia, be able to develop

projects that meet local needs, and be better able to conduct feasibility studies and risk management. The recipients of these private funds from advanced countries must also prepare their local financial and capital markets for them.

In March 1994, the PECC Financial Markets Development Committee was established and embarked on a "financial markets development" project for the Asia-Pacific region.

At a meeting of APEC finance ministers in Cebu, Philippines in April 1997, the PECC Finance Committee made three proposals: 1) standardization of requirements for disclosure of financial information, 2) diversification of financing mechanisms for infrastructure development, and 3) further liberalization of cross-border capital flows.

The advances seen in computerization have, particularly in the US, resulted in an active effort to develop new products for structural excess money. Progress is also being seen in the use of the Internet for financial transactions and the development of electronic financial transactions.

There are several reasons why Japanese financial institutions are said to be decisively weaker than their European and American counterparts, but the basic reason is that Japan, after having caught up to the West in industrialization, was slow to move into it and services of the next age.

1. In the US, advances in information technology brought new theoretical developments that caused the textbooks to be rewritten in the seventies and innovative products like derivatives to be developed. In Japan, however, we have no business schools and little interaction between industry and academia. This made us slow to develop the theoretical underpinnings and to computerize our businesses. The decisive factor, however, was that the development of new products by individual financial institutions was closely hemmed in by regulation, including the need to undertake industry "adjustments" before products could be launched.
2. Japanese society operates on the principle of "we're all in this together" and has little sense of personal accountability, which means there is also little awareness of risk taking. Japanese financial institutions have in the past done everything they could to avoid risk, and with the advent of new products like derivatives they stand to fall behind the competition if they do not take risk.
3. Credit derivatives are fairly advanced in Japan, but we have been slow to develop methods for objectively measuring and quantifying risk, and as a result have

inappropriate fees set for risk swaps and other financial transactions.

4. Japanese financial institutions are fatally behind on questions like which risks should be taken and how risk management can be used to minimize risks. Nor do they have any specialists in risk management. This argues for reforms in financial-institution organization and employment practices.
5. Finally, when a financial institution with which they have dealings goes bankrupt, Japanese financial institutions share the burdens for rescuing investors in order to preserve the integrity of the financial system. This also reduces their competitiveness in comparison with Western institutions.

## **5. The reforms to be sought in advanced countries**

The systems of America, Europe, and Japan are different; each has its strengths and weaknesses. But all share the experience of having successfully industrialized and achieved affluent societies. This memory of success has led to a facile reliance on the systems that brought that success, and made it more difficult to remedy the defects.

There are worries that no matter how much Japan may seek "US-style" markets, it will not achieve the necessary reforms because these are issues of social and individual awareness and perception, which are formed by the historical and cultural background.

However, there are also limits to Japanese-style management—the alignment of the development of the state, the prosperity of the company, and the interests of the individual that inspired all to cooperate and earned us the name "Japan, Inc." As companies move overseas and restructure, and as young people emerge with different ideas and perceptions, the interests of the state, company, and individual are diverging.

Recently public opinion polls indicate that our "contextual" society may be able to incorporate the strong points of US-style individualism.<sup>9</sup>

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<sup>9</sup> The Japanese today find it more preferable to "live independently as an individual and be paid according to merit" than to "depend on the organization and be paid according to seniority." In 1990, only 47.6% were positive towards "wage differences based on merit." In 1995, 70.9% were, and 77.9% of those in their forties. (The first finding is from an opinion by Recruit Research; the second, from a survey by Dentsu Research. Both were reported in the January 24, 1997 edition of the Asahi Shimbun)

The United States, the leader in computerization and services, has seen its macro-economy recover and jobs once again become secure, but while it has a few companies that are extremely strong, it also suffers from the twin burdens of massive trade and fiscal deficits, an expanding gap between the very rich and the very poor, drugs, crime, and a host of other social ills, and low savings rates.

The widening gaps between the very rich and the very poor are one of the largest problems facing the United States and considered by many to be the cause of many of its social ills: the large number of social "dropouts" and poor, the homeless, drugs, crime, AIDS, and declining literacy.

The challenge to Japan in adopting the good points of US-style systems as it reforms its society and economy will be to find ways to avoid bringing in the defects and problems as well.

Japan has traditionally tried to fix it so that there will be as few "drop-outs" as possible and has endeavored to rescue those who lose in the competition so that they do not stand out as "losers." But this will not be possible if the competition in the market is given precedence. The socially "weak" is identified and rescued with a safety-net established for that purpose. For those defeated in the competition, giving them a second chance, as it is done in the U.S., would be appropriate.

The West is also acknowledging the weaknesses and problems in its systems including individualism and freely competitiveness markets. Adopting the strong points of Japanese systems as a means of reform has been seriously discussed.

The Industrial Productivity Studies Committee of the Massachusetts Institute of Technology says that for the United States to "resurrect as the leader of tomorrow" it will need to blend the kind of "coordination" that Japan is so good at with the "individualism" that is the hallmark of America.

MIT Industrial Productivity Studies Committee, *Made in America* (1990).

As they re-engineer, US companies are trying to study and adopt what they feel are the strong points of Japanese companies.

There are contrastive differences between Western individualism and Japanese contextualism, but these should be considered only matters of degree—a question of how the historical and cultural background has caused people in different societies to place different degrees of emphasis on individuals and relationships.



Many people have attempted to transcend the Cartesian dichotomy that distinguishes between A and non-A and attempts to mechanically process phenomena by reducing them to their factors.

The Ohira Policy Research Project saw the relationship between the individual and the whole in terms of holonics and advocated that the new age adopt a "holonic path"-a path of harmonization.

Ohira Policy Research Project , *Report of the Research Group on "The Historical Development of Science and Technology"* (1980).

Professor Taizo Yakushiji says that the trilemma of economic activities, energy, and environmental degradation will only be solved by abandoning the methods of the physical sciences, which are based on the bisection that underlies modern science and technology (modern economics imitates this method) and adopting the approach of the program sciences.

Committee for Japan's Strategy, FAIR, *Japan's National Interests Defined: Global Strategies for the New Millennium*.

Professor Yasusuke Murakami explains it this way. Modern progressivism is marked by "objectivity," but the faith in objectivity is rooted in the Cartesian dichotomy that says there is a clear distinction between the subjective and the objective. However, in their lives people have a "self which sees" and a "self which is seen," which they interpret in terms of their relations with other people and nature. The transformation of modern civilization can no longer rely on the unified progress of industrialization. Humanity must say good-bye to modern progressivism, search for a variety of individual paths, and respect and learn from each other's choices.

Murakami, Yasusuke, *Outline of Anticlassical Political Economics* (1994).

Professor Hiroshi Shimizu notes that there are a large number of problems that cannot be solved by a perspective that distinguishes between the self and the other. These problems require something more akin to improvisational theater in which the "setting" is all important, and one tries to interrelate the "self which sees," the "self which is seen" and others in a non-exclusive manner.

Shimizu, Hiroshi, *The Theory of Place as Life Knowledge* (1966). (J)

In the West as well, there are serious attempts to transcend Cartesian dichotomy.

Ms. Danah Zohar of Britain sees society as something akin to a dance troupe in which each dancer improvises, but in a way that maintains the harmony of the whole. This eliminates the biases of traditional mechanistic views and enables society to be seen more like a "quantum" structure.

Zohar defines a person as a "double existence" of particles and waves (relationships).

Zohar, Danah, *The Quantum Society* (1994).

Professor John Holland of the Santa Fe Institute in the United States has developed a theory of "complex adaptation" and Professor Shunpei Kumon one of "complex actors" that are both similar approaches to explaining society.

Similar studies are also being done on new market economies.

Professor Peter Senge of MIT says that many phenomena cannot be understood by breaking them down into factors, as has been the traditional method, but only by seeing their relationship to the whole. Companies do not adversarially control markets through competition but learn from other relationships (behavior in the market, relationship with the environment etc.), reorganize themselves, and seek a harmony.

Senge, Peter, *The Fifth Discipline* (1993).<sup>10</sup>

James Moore of the United States in *The Death of Competition* argues that companies with revolutionary, monopolistic technologies and products can serve as the core for a "business ecosystem" that includes other companies and market participants so as to benefit both the companies and the consumers involved. He attempts to illustrate how this could be designed by distinguishing between "competition" and "co-evolution."

Moore, James, *The Death of Competition* (1996).

The "technopolies" discussed in the Economist of London are examples of these kinds of systems.

Regarding the recent scandals of major banks and stock companies in Japan, there are critics that limited competition has been the major cause of 'rent' or excess profit and that the lack of transparency has caused the partial distribution of 'rent'. Japan has to introduce a mechanism of competition based on self-responsibility in order to enhance the transparency of the markets. Yet, its outcome is still unclear.

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<sup>10</sup> The first four disciplines, according to Senge, are 1) personal mastery, 2) mental models, 3) building shared vision, and 4) team learning. The most important, however, is the fifth, "system thinking," which subsumes the other four.

The reform of Japanese contextualism and Western individualism may ultimately be found in the convergence of systems thought to be contrastive.

By learning from each other, adopting each other's strong points and remedying our own defects, both systems can be overcome to give birth to something new.

The reforms that should be pursued by the United States, Europe, and Japan are not to become "Americanized," but to incorporate the strong points of each other's systems, remedy their own faults, and arrive at a "New system based on new principles of markets and competition."

That is what I think.

Thank you.