

A Reflection on Japan's New Form of Capitalism

“In the 1990s many Japanese had an uneasy sense that something about their nation had undergone a major shift. They feared that the economic bubbles of the late 1980s and then the bursting of the bubbles early in the 1990s had undermined not only the economy but also the political order and society—even the value system and ethical norms at the very core of the nation.”

“The Japan model after WWII was the “catch up and overtake” model, followed not only in the postwar period but ever since the Meiji era (1868–1912). Japan must now seek a better model. But the world no longer offers ready-made models.”

The two paragraphs above were extracted from the report “*The Frontier Within: Individual Empowerment and Better Governance in the New Millennium*” prepared by the Prime Minister’s Commission on Japan’s Goals in the 21st Century and submitted to Prime Minister Keizo Obuchi on January 18, 2000, just at the start of the new century.

The report sought to generate debate in the Japanese society on the new direction Japan had to take to face trends and challenges in the 21st Century such as advances of globalization, the use of English as lingua franca, advances in science and technology as well as falling birthrate and aging populations.

As a foreign observer with an educational background in international political economy, I found the report quite fascinating as it provided a radiography of the state of Japanese society at the beginning of the new century. In a nutshell, it was a deep reflection on Japan from the highest office of government, hence its enormous importance.

In fact, I read this report when I was just starting my diplomatic service in Tokyo in January 2000. Twenty-two years later, I have taken a look at the report again in view of the *new form of capitalism* promoted by Prime Minister Fumio Kishida since he took the office in October 2021.

Rather than remaking the economic system of Japan, the new form of capitalism advocated by Prime Minister Kishida is a set of policy guidelines to *update* an exhausted socio-economic structure that has been stagnated since the burst of the economic bubble in the late 1980s.

Previously, former Prime Minister Shinzo Abe had tried to revitalize the Japanese economy during his almost 8-years term (2012-2020) through the three-arrow policy, which included: 1) an expansion of money supply or monetary easing (to achieve 2% inflation); 2) fiscal expansion (increase of public spending to stimulate the economy); and 3) regulatory reform to make Japanese economy more competitive, and therefore, more attractive to domestic and global investment.

It is fair to say that Abe’s economic policy (known as Abenomics) injected a desperately needed dynamism to the Japanese economy, especially in the aftermath of the 2011 Great Tohoku Earthquake, which shook up the whole energy industry of the country. Abe’s policies achieved a moderate GDP expansion for almost six years from 2012 to 2018; however, the 2% inflation target was not achieved while consumption remained weak with little or no improvement in workers’ wages, despite Abe’s repeated requests to companies to increase employees’ salaries.

Later on, and after succeeding the short-lived administration of Prime Minister Yoshihide Suga, Prime Minister Kishida established the Council of New Capitalism Realization in October 2021, “in order to realize a new form of capitalism based on the concept of a virtuous cycle of growth and distribution and developing a new post-COVID-19 society”.

According to Prime Minister Kishida, this policy framework seeks to reduce disparities and poverty caused by an excessive reliance on markets, which since 1980s have placed priority on short-term gains of stockholders rather than on the overall well-being of citizens.

In a few words, the new form of capitalism promoted by Prime Minister Kishida calls for investments on four main areas: 1) human resources; 2) science, technology and innovation; 3) startups; and 4) green and digital initiatives.

In the area of human resources, the government will make efforts and encourage wage increases by companies, promote labor market flexibility so people can change jobs easily, and double households’ asset and income by inducing people to shift from savings to investment in financial products such as stocks and mutual funds. The government plan also includes an investment of 400 billion yen (US\$3 billion) to train and provide new skills for 1 million mid-career workers and non-regular workers, thus expanding their job opportunities.

In the field of science, technology and innovation, the Kishida administration aims at strengthening investment in areas outside Japan’s traditional expertise such as quantum technology, artificial intelligence, financial technology, biotechnology, and especially in the software-driven innovation where US, Europe, China, South Korea, India and other countries have taken a huge lead. The government will also allocate 10 trillion yen (US\$79 billion) to fund selected public and private universities that possess world-class research to put them on par with leading US and UK universities.

As for startups, the government will establish an environment that enable and nurture innovative and promising companies, and in this regard, will implement a five-year program to fund these companies through the Government Pension Investment Fund. At the present time, there are few unicorns (startups) in Japan, which are funded by private capital; however, the Kishida administration is committed to boost startups as drivers of technological innovation.

In regard to digital transformation, the government plan includes the promotion of data utilization in the areas de health, medical care, nursing care, education, among others; promotion of the Data Free Flow with Trust as a roadmap to safely transfer data abroad; promotion and facilitation of transparent cashless payment; and the digital connection of rural areas with the world thorough a scheme called the Vision for a Digital Garden City Nation.

In terms of green initiatives, the Kishida administration will provide 20 trillion yen (US\$156 billion) over 10 years for companies willing to invest in green energy and achieve a carbon-free society by 2050. The government plans to issue green bonds to finance its strategy for decarbonization, which include promotion of electric vehicles, domestic production of batteries, development of hydrogen stations and recharging facilities, improvement of energy-saving performance in housing and building sectors, development of nuclear fusion energy, among others.

Many economists argue that there is nothing new in the Prime Minister Kishida's new capitalism as they claim that most of these policies were already introduced by previous Abe and Suga administrations.

However, many political observers, including myself, perceive a renewed sense of urgency in the Kishida administration to revamp the socio-economic system to catch up with the digital age and face the threat posed by climate change. This sense of urgency also comes from geopolitical risks generated by the Russia invasion of Ukraine and heightened and persistent security challenges surrounding Japan.

Although these policies seem to move in the right direction, still there are several issues, which are long overdue and deserve the same priority as those indicated above. In this connection, I would like to mention the aging population and falling birthrate. Indeed, it is difficult to create a virtue cycle of growth and distribution when the population, which is at the center of production, distribution and consumption, is aging and shrinking at an alarming pace.

In other words, this population degrowth is one of the main factors causing the stagnation and decline of the Japanese economy. As indicated in the report presented to Prime Minister Obuchi in 2000 (cited above), "the aging of populations especially is an inexorable process, acting as a brake on economic growth and pushing up social cost;". As an alternative, the report called for a greater participation of women in society and the workplace.

No doubt, the role of women must be an integral part of any economic growth strategy, and fortunately, Prime Minister Kishida recently mentioned that economic women empowerment will be at the center of the new form of capitalism, seeking to break old-fashion labor practices that create inequalities in the labor market in detriment of women.

By recognizing women's professional capacities and remunerating them fairly, it will certainly contribute to boost productivity in both public and private sector. In my experience working with Japanese women, I have observed a great capacity to simultaneously resolve various issues as well as a notable readiness to assume new tasks and responsibilities. It would be interesting to see if Prime Minister Kishida start implementing the policy of women empowerment in the public sector to set an example for companies.

Tackling the falling birthrate is also an urgent matter for economic growth and the continuity of Japanese society, especially when the government recently reported that Japan's estimated child population has fallen in 2021 by 29,231, or 3.5%, a record low for the 41st straight year.

This worrying situation should prompt the Kishida administration to implement various measures such as: 1) total insurance coverage for pre-natal care; 2) increase of public daycare centers in every municipality and provide tax breaks for companies that set up their own daycare facilities; 3) to conduct a national campaign on TV and SNS to promote a culture of husband-wife cooperation in child rearing, among others. No doubt, these measures will encourage a greater participation of women in the labor market.

As for education, it is encouraging that the Japanese government will invest in Japanese universities to make them internationally competitive similar to their par in the US and UK;

however, this investment must be accompanied with a new educational mindset in every university campus across Japan, and especially in the Ministry of Education of Education, Culture, Sports, Science and Technology of Japan. As the 2000 report stated, Japan must break down from the homogeneity and uniformity of present-day education. It is quite difficult for students, professors and researchers to innovate in an environment where the “nail that sticks out is hammered down”.

Therefore, any effort to improve university performance must be nurtured with a pioneer spirit to seek the highest levels of excellence. It is the same spirit that guided the efforts of Sakuma Shozan (1811-1864), Yoshida Shoin (1830-1859) and Yukichi Fukuzawa (1835-1901), great educators who paved the way to transform Japan into a modern and robust nation, capable of competing with European powers and the emergence of the US after the second half of the 19th Century.

Prime Minister Kishida’s new capitalism also requires a new mindset in the working style of Japan. Thus, the government must make efforts to promote the transition from the seniority-based promotion system to the performance-based promotion system but respecting the status and recognizing the contributions made by senior collaborators. The new generation of Japanese workers are less inclined to accept working conditions where they have to wait for years to get a promotion due to age rather than for their skills and results they achieve.

I believe the Kishida administration has put in motion an earnest effort not only to revitalize the Japanese economy, but also to correct shortcomings of the capitalist system by seeking to extend its benefits to other stakeholders of society beyond the short-term profit of stockholders.

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Translation to Japanese by Ayana Diaz Hatada.

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