

Romanticism or Realism

Which Will Dominate Post-crisis Economy?

By Naoyuki HARAOKA

There are two groups of people in this world: one consisting of people who tend to look at the world with romanticism, and another whose members look at the world with realism. My colleagues, two young women editing *Japan SPOTLIGHT*, apparently prefer romanticism, whereas I prefer the opposite. I had assumed that the difference mainly came from my being an economist, whereas they are not. However, even among economists, there seem to be romanticists and realists, and the difference will eventually lead to a different shape of capitalism.

Romantic economists often point out that “true happiness” is not necessarily born from material wealth. *Chart 1* shows us that in Japan, satisfaction in life has declined while GDP per capita has increased. *Chart 2* shows that this is also true of the US case. In addition, *Chart 3* tells us that in Japan there are many people who respect the value of spiritual well-being more than material affluence in their life.

Romantic Economists

On the basis of these data, some romantic economists advocate the concept of social evolution without economic growth. According to them, today all mature economies have entered a low-growth era, in particular after the economic crisis, and they can no longer expect high growth due to the fact that their capital accumulation process, the source of growth, is strictly limited by the decline in savings because of the aging population. Under these circumstances, it is a good opportunity for us to pursue increased spiritual well-being or satisfaction in life in the post-economic growth era.

Instead of material growth, what they consider most important to achieve this goal are a clean environment and social welfare facilities such as daycare facilities or local hospitals provided by the local public sector. I am not saying they are totally wrong. Indeed, as I mention in the second half of this article, we can learn a lot from them. It is also to be noted that many of these romantic economists are Europeans who represent the wisdom of the region with the longest history of capitalism and materialism and know its merits and demerits very well.

Realistic Economists

However, I would like to point out a few things that I find illogical from the viewpoint of a realistic economist.

Firstly, what they call satisfaction in life, spiritual well-being, or the index of happiness in the *charts* mentioned above are all based on the responses of arbitrarily selected samples to a questionnaire in the poll. This means the figures are not objective but fairly subjective. Whereas GDP per capita is an indicator that correctly reflects reality, these answers can vary depending on each respondent’s personal preferences, views on happiness, or satisfaction in life.

Secondly, I assume that in many cases, as you become richer, you naturally pursue spiritual happiness rather than material wealth. This is reflected in the outcome of the poll. This means that their preference for nonmaterial values does not literally mean that material welfare has become meaningless for them. Just like rich people buying

art, they might have stated their preference to the questionnaire after having achieved a certain level of wealth. Most of them are probably well aware of the value of material wealth as their base of happiness.

Thirdly, and more importantly, innovation is vital to the evolution of humankind. The history of humankind proves this. The Industrial Revolution promoted not only economic growth but also the wisdom and social welfare of human beings. What do we need to encourage innovation?

My answer is that what we need are market growth and competition. During the 1950s-60s, the so-called high growth era in Japan, these two factors created a sound base of innovation, and innovation further encouraged growth, thus consolidating a virtuous cycle.

Corporate Social Responsibility

Romantic economists tend to stress the importance of spiritual values for human beings by using rather provocative language such as “the era of material growth has ended” or “we should bid farewell to the concept of economic development or progress having prevailed over capitalist countries,” etc. However, according to Balzac, the great French writer considered a representative of naturalist literature in the 19th century, human values and ethical judgments are strongly influenced by material wealth.

A man of literature cannot properly describe human nature without describing the reality of the economy, a key to material wealth, according to Balzac. He was an outstanding writer on the economy as well as on human nature. So his literature has become an excellent textbook on economics in the period of the beginning of capitalism, when he lived, in the middle of the 19th century. It is good for people who believe literature always emphasizes the romantic aspect of human beings to know that it could also be a good textbook to teach economic realities.

In spite of these logical shortcomings, romantic economists are right in saying that social cohesion or solidarity is necessary in contemporary capitalism, where diversified values develop as people grow richer. Concerns about the environment and health, human rights in poor countries, or an employee’s satisfaction with her/his working life should be integrated with the market economy to avoid an increased lack of social solidarity.

The concept of corporate social responsibility (CSR) is very useful for achieving this integration. CSR can be defined as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

European & Japanese Models

Here, integration could mean “companies could show responsiveness.” This idea of “the capacity of a corporation to respond to social pressure” or, in other words, “the corporate societal responsiveness” is a management approach which could avoid the ethical questions that have no answer in economic management theory. This is based on the belief that the nature surrounding us includes not only

society but the economy as well, and that managing all of our activities, including social and economic ones, is our duty.

This concept was well-developed in Europe and is an essential component of the European social model and also of the European strategy for sustainable development. It can respond to social problems brought about by economic globalization.

CSR is considered an engine to promote inclusive growth, meaning economic growth without excluding the poor and the weak in Europe, and is also identified as an important element of the European capitalism model promoting European competitiveness in relation to other regions.

CSR is more relevant than ever in the context of the economic crisis. It can help to reconstruct trust in business, which is vital for the health of Europe's social market economy. It can also point the way to new forms of value creation based on addressing societal challenges, which may represent a way out of the crisis in Europe.

Europeans believe that social cohesion or solidarity, vital to achieving happiness for human beings as well as material growth, will be realized by this concept of CSR.

In Japan, CSR has become a very useful instrument for integrating social concerns in business operations in the market economy. However, I believe that in the case of Japan, noneconomic values were traditionally taken care of by the so-called Japanese management system in which each employee's non-pecuniary incentive to work was built. Maintaining positive and sound human relationships through the seniority system based on Confucian philosophy is a good example.

Today, this system is no longer dominant in Japan and the meritocracy system based on each employee's competence is more prevalent. However, assuming that many people pursue satisfaction in life, including in their working life, I believe the Japanese management system respecting human values should be reconsidered.

High Hopes on Efforts by Franco-Japanese Economists

Romanticism or realism: which will be dominant in the post-crisis world economy? This is a very difficult question to answer.

I think in fact neither of them will be, and instead a system that mixes both will be successful in surviving. How these two types of thoughts can be combined will depend on a nation's historical background of capitalism. European-style CSR and the Japanese traditional management system are possible examples.

Fortunately, we live in a globalized world where you can easily compare national systems. A study on the question of whether romanticism or realism is dominant in each country could be a good subject for discussion among economists from different countries. Today we have many international associations of economists. Their roles and missions would not soon be exhausted in this regard.

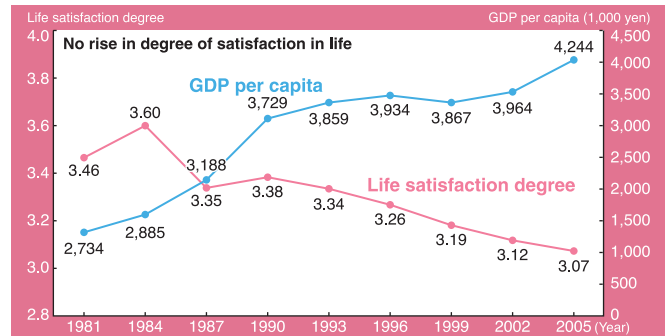
For example, the France-Japan Economists' Association has been highlighting a comparison of the two countries' economic histories. Recently their focus has shifted from history to the contemporary world. Assuming that the current globalization is to be centered on the ideas held by what we call realistic economists, how can France and Japan deal effectively with this?

There are high expectations of young economists in both countries to engage in tackling this challenging question. **JS**

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CHART 1

Trends of life satisfaction degree & GDP per capita in Japan (1981-2005)

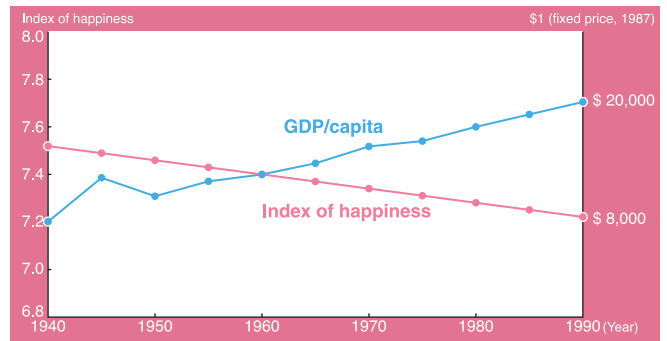


Note: 1. Prepared from "National Survey on Lifestyle Preferences" & "Annual Report on National Accounts," both Cabinet Office (figures in/before 1993 based on final data released in 2002; those in/after 1996 on final data in 2006) & from "Population Census," Ministry of Internal Affairs & Communications
 2. The life satisfaction degree is based on a poll of people responding in "yes or no" to the question "Are you satisfied or dissatisfied with your life?" & then picking one of five levels of satisfaction/dissatisfaction ranging from the top level ("satisfied"), which is given a score of 5 points, to the bottom level ("dissatisfied"), score 1. Each level is given an average score weighted by the number of respondents, thus putting the degree of satisfaction into figures.
 3. The pollees are men & women aged 15-74 (excluding those responding "I don't know" or giving no reply).

Source: Chart 1-3-1, "White Paper on National Lifestyle," 2008, Cabinet Office

CHART 2

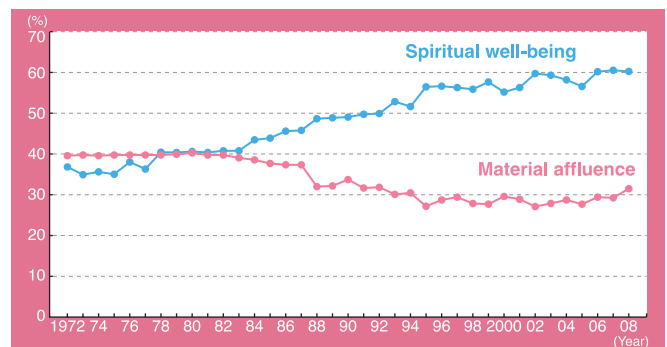
US GDP/capita & degree of happiness (1940-1990)



Note: Index of happiness is based on the response "Very happy"; 10.0 = full happiness
 Source: "The Loss of Happiness in Market Democracies," Yale University Press, 2000 (p.5).
 Data from "Statistical Analysis of the United States 1995," U.S. Government Bureau of Economic Analysis

CHART 3

Japan: Which do you emphasize in your life - spiritual well-being or material affluence? (1972-2008)



Note: The percentage is the ratio of respondents who picked one of the following two answers in connection with the question "Which way of thinking is closer to yours regarding spiritual well-being or material affluence in your life?": (A) I would like to place emphasis on spiritual well-being or a more relaxed way of life as I have become materially rich to some extent. (B) I would like to place emphasis on making my life even more affluent in material terms.

Source: "Opinion Poll on the Nation's Life," June 2009, Cabinet Office