

# Social Equity: A Path to Be Pursued by a New Society

By Marc Humbert



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*Japan SPOTLIGHT*, though generally believing in the benefits of market-oriented capitalism and economic growth, certainly regards his views on constructing a new society of sharing or the need to pursue diversified values besides economic as important enough to be integrated into our thinking on the future of capitalism and society. We are pleased to present for our readers in a Q&A format the following summary of a discussion we had by email.

**What do you think about the impact of “social equity” and in particular “income and welfare inequality” upon economic policy management? Without an appropriate policy to deal with “social equity” (the inequality question), would economic growth itself not be sustainable?**

Before discussing “income and welfare inequity” I think that “global environment” is definitely the most important element in talking about the sustainability of economic growth. Economic growth has been continuing for so many years in rich countries and based on the use of so many non-renewable resources that, at least since the publication of *The Limits to Growth* in 1972 as the first report of the Club of Rome, we all know that 1) our planet is being asked to provide more than it can reproduce (ecological imprint), global warming has already started and the only thing we can do is to try to prevent that heat from climbing too high, and 2) extending Western and Japanese ways of life to the rest of the planet is absolutely impossible.

This is the real context. World growth is slowly but surely destroying the planet and is not sustainable. We could go on exhausting the last resources, but anyway if rich countries maintain their way of living, only a few emerging countries will be able to catch up with the current level, such as China perhaps. If the world goes on as it is now, a new crisis will come – that is, a possible drastic increase in income inequity between the rich countries and poor countries. World social equity is unachievable and lasting absolute poverty will nurture world insecurity.

Growth, at a country level, was supposed to benefit the whole population. This was what the Japanese and French enjoyed for years and years. Since the end of the 1970s in France, and the end of

the 1980s in Japan, growth has been slow and above all income inequalities have been rising and poverty rising too. Certainly, in a low growth rate era, social equity – mainly income inequality – would be the main issue in economic policy management. Without resolving the issue appropriately, sustainable growth cannot be achieved.

**In your recent book on the experiences of social exclusion in France and Japan, how do you analyse the issue of inequality in both countries’ current economies and societies?**

Japan and France are two good examples of what could be achieved under a regime of nationalistic capitalism in an economic world still far from its limits. This means Japan and France and a few rich countries grew at the expense of less competitive rivals and at the expense of future newcomers which will arrive when the world has moved closer to its material limits.

Both countries were able to achieve high growth on different bases and to create a middle-class society with limited inequalities. However, this finished at the end of the 1970s for France, and at the end of the 1980s for Japan.

In France, a democratic state and strong trade unions organized a welfare state with a good public and almost free education system, health system, pension system, family-promoting system, infrastructures, etc. Such a socio-economic system had made inequalities unacceptable, at least until the mid-1970s. Then difficulties began to arise.

In Japan, an autocratic state and strong paternalistic firms have organized a Japan Inc. welfare system: good commitment and good salaries for people to be able to pay high university tuition fees for

children, health insurance and pension schemes beyond state programs, very good infrastructures, etc. Such systems continued at least until the mid-1980s, and then difficulties arose.

In both countries, wages have stopped rising, unemployment and above all precarity have increased, homeless people have appeared, and inequalities have grown. Excessively high incomes for top executives are not as common in Japan as in France, but relative poverty has spread more widely in Japan. Graduate students have difficulty finding a job in France, and this is now happening in Japan as well. The *Table* shows that the proportion of poorly paid employees or degraded working conditions has reached a high level, in particular among the youth in France. *Chart 1* shows that in Japan, whereas the number of regular workers has been declining among young people, the number of non-regular workers has been increasing, and even the number of unemployed (excluding students) has been slightly increasing. *Chart 2* shows those non-regular workers in Japan are paid much less than regular workers. This is how our recently published book on “Social Exclusion in France and Japan” shows that in both countries income inequality has been expanding recently, in particular among young people.

Both systems, as in almost all other rich countries, are not able to work without growth. However, there is no growth anywhere in these countries and no possibility of growth in the future. To target growth is to dream and not to be realistic. All measures that are taken to create more growth are under the imperative of more competitiveness, and that means lower wages or fewer workers. Thus even if some growth is achievable, it would be by winning over other countries, and it would come with more inequalities at home.

TABLE

### Proportion of employees & manual workers subject to each type of constraint according to age

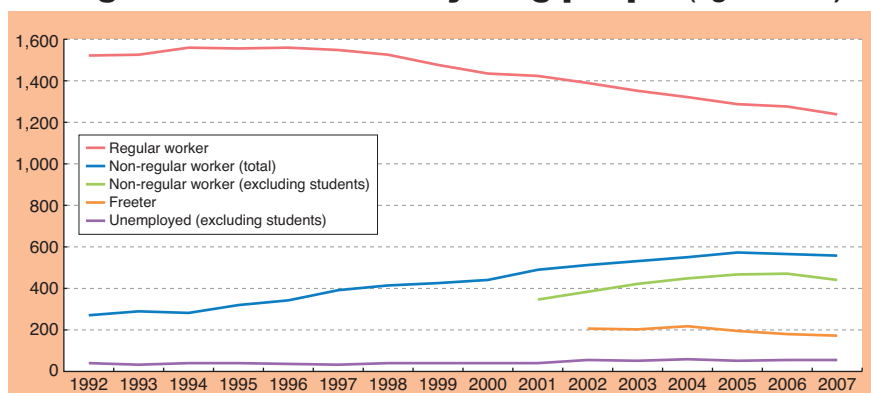
Type of constraint	Manual workers & employees		
	15-19 year-olds	20-24 year-olds	All
% of employees poorly paid	90.0%	54.0%	35.5%
% of employees with degraded working conditions	31.5%	30.5%	27.5%
% of insecure employees	56.0%	53.0%	33.0%
% of employees having few resources	12.0%	15.0%	22.0%

Note: Example. 90% of 15-19 year-old employees are among the 25% least well-paid employees. This is also the case for 35.5% of (all) employees and manual workers.

Source: Enquête conditions de la travail 2005 Field: Manual workers and employees

CHART 1

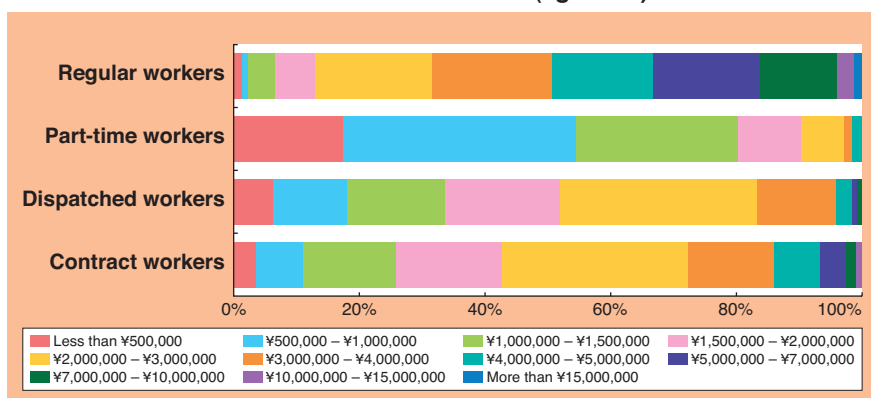
### Change in the number of young people (aged 15-34)



Source: Ministry of Internal Affairs & Communications, Labour Force Survey

CHART 2

### Distribution of annual income (age total)



Source: Ministry of Health, Labour & Welfare, 2008 White Paper

To win, Nissan must pay its directors more and cut its workforce; it must pay less to its shrunken number of subcontractors, and pay less to its non-permanent workers who are becoming a growing proportion of its workforce. However, in 10 years from now, it is not certain that it will not merge with a Chinese company, with all the consequences you may imagine.

### **Do you think the emergence of the “social equity” issue as an important agenda item for a national economy would lead to a change in the nature of capitalism?**

If a country wants to be more than just an economy, it will come back to the idea that it is a society not a company – *shakai* not *kaisha* – and this means that the target is to create a good society (see J. K. Galbraith) and that the economy is at the service of the society and should be constrained by social interests and concerns. A market is a tool to organize exchanges; markets don't bring new intrinsic value, or only a very little. Value comes from the production of things. For a long time capitalism was considered as an “industry” with innovation, that is, something with advanced technology and some economy of scale, compared to handmade, handicraft production. Even Margaret Thatcher was in favor of SME manufacturers with innovative technology.

However, today capitalism means finance and speculation. Companies are no longer considered entities which must make the best thing every day to meet the needs of people more effectively. They are entities with a market value on the stock exchange and the necessity to deliver a good quarterly return to their investors. They are a kind of merchandise in a world of speculative financial capitalism.

This is in line with the fundamental ideology of capitalism, which is far from the ideals of many industry captains in Japan, including those left today at the head of some family companies. The ideology of capitalism is to accumulate wealth, financial wealth, and this is regarded as the best since it produces more wealth in less time than any manufacturing industry. We have to get rid of this kind of capitalism but unfortunately it is congenital. We do need markets, but we must not let markets be run by the ideology of capitalism. Thus we have to follow the spirit of the New Deal of Franklin D. Roosevelt and that of John Maynard Keynes. We also have to follow the spirit of the Anti-Trust Acts inhibiting competition-restricting business conduct, such as the earlier Sherman Act and the Clayton Act, in order to tame the temptations that arise when people become fascinated by wealth and when their morals are not strong enough to resist them. To countervail this lack of ethics, governments must impose rules in a democratic way.

### **Europe, the United States, Japan and the BRIC nations seem to be pursuing their own way to achieve a new capitalism. Where do you think global capitalism will head in the future?**

It will certainly be impossible for any single country to engage in radical changes on its own. Like the idea of socialism in a single country. No matter what kind of capitalism each country or region pursues, the common denominator in a globalized world has been the principle of free trade.

It is clear, for example, that the WTO is promoting free trade and serious competition as a result of free trade between all workers throughout the world. If free trade is achieved, the theory is clear on the outcome – for any job, a worker will be paid the same wage whether he is working in Tokyo, New York, Beijing, Nairobi or Brasilia. Thus this desire to enforce free trade is a contradictory stance: even the US is not willing to achieve completely free trade that will balance everything. With free trade there will be no trade surplus, no yen appreciation.

Clearly the official discourse is a hypocritical one and until we change this everyone will continue saying one thing and doing another. We need managed trade, that is, true international cooperation to change the way the economy and trade work at the global level. If not, the law of the jungle – which has already started – will apply. The stronger will survive and the weaker will revolt or die. Already 1 billion people are starving in this world, our fellow human beings! In Japan 3 million at least would be living on assistance and another 10 million working 12 or more hours a day for a very difficult life. Where is the will to give hope of a good life for everyone that Japan had in the 1960s or where is the attempt by the DPJ to stop concrete infrastructure building up and to take care of the lives of the people? The situation is similar in France and it is difficult to know whether President Francois Hollande will be able to change things in France as it is a global issue.

### **How do you assess the Stiglitz Commission Report? How do you think it treated the question of “inequality” and what do you think about the fact that France initiated this project?**

This was an initiative by the former French president, Nicolas Sarkozy, taken mainly because he had promised growth to the French people during the election campaign of 2007 but growth had proved difficult to achieve. After being elected he asked Jacques Attali to report on ways to create growth, and Attali proposed 300 or so measures. But finally the idea came to Sarkozy that even if he could not achieve a good record in terms of GDP growth, he could show a good result with another indicator. His advisers first thought about enlisting the aid of Armatya Sen, who designed the UNDP human development index, but that seemed too simple; in fact he did not agree to work for Sarkozy, but Stiglitz did. In the meantime, the OECD had organized collective work along the same lines. I participated in this work and my team, PEKEA, won a prize at the meeting in Busan in 2010.

The main outcome of the report was to make a wide audience aware that GDP measures only what is sold in the marketplace or what has been delivered after payment for the workers employed to produce it. Whatever is produced consists of some good things and some bad things. GDP includes the value of products that are polluting the air, the rivers, the sea; it also includes medical expenses for people who were injured in cars accidents, and perhaps these cars had faults and were already included in the GDP amount. GDP and growth are what is counted in the market. But they do not take account of the level of improvement in the net addition of good products for people. Thus the ideological equation that GDP growth equals growth in the well-being of people has been seen to be wrong. GDP does not measure well-being.

There is no agreement on how to measure levels of inequality. The Gini coefficient is one second-best candidate, for example. There is a concern that since the end of the 1970s in the US and France economic growth could have provoked rising inequalities. In this period, the material devices for pursuing economic wealth simply by financial speculation rather than manufacturing based on technological innovation can be linked to the enormous income gap between the rich, who had financial experts, and the poor, who did not.

Let's think that growth is the magic potion for politicians who since World War II have been progressively fascinated by it and encouraging their people to acquire all these little treasures (a washing machine, a television set, and so on). Everything for growth, measured in the market by a single GDP growth rate index. They cannot stand for a world without some magic target figure. Read the newspapers: could you find since the 1970s or perhaps even the 1960s more than 1% of front pages of daily newspapers that do not carry news about growth rates? This is an addiction.

We do not need a difficult single synthetic index that can say, without analyzing the everyday lives of people, by how much this year was better than the last one in terms of more good products, less inequality and greater happiness. It is impossible and useless to try to create such an index.

### **We need to evaluate the market-oriented capitalism initiated by Ronald Reagan and Margaret Thatcher. What do you think it has brought us today?**

What was initiated by the policies of Reagan and Thatcher was not new, but I would like to see it as a return to the pre-Roosevelt capitalism, archaic capitalism. There has been a hyperconcentration in the finance industry since the beginning of the 20th century, and excessive speculation has caused worsening economic recessions, growing inequality and recurrent crises. And the growth we have achieved is mainly artificial: more material gadgets and more financial services, huge numbers of cars in traffic jams with their intelligent navigators, cell phones to track you everywhere and to say

hello before arriving or to prevent you from speaking to the friend in front of you. In order to keep up with the latest trends in innovation, you have to keep rapidly changing your computer, Microsoft or Apple or Toshiba or ... This merely results in too much competition for the sole pursuit of profits.

### **Do you think Europe and Japan have common social issues including “inequality” to resolve and that both would therefore benefit greatly from cooperation?**

Europe is very diverse and the working of social policies is very different in Germany from France and in France from Italy and in both from the United Kingdom, and so forth. The only similarity compared to Japan is the high level of state expenditures on social welfare systems and public services. The way the economies work and the organization of labor relations are also very different from one country to another, and fiscal policies are also very different. From the outside it looks united but let's think over this European history. Why do you think it was necessary after the Treaty of Rome in 1957 to create a common market to undertake so many reports to prepare for a single market in 1992? And even that was not enough, because Europe still needed a “treaty” to set up a true unique market in 2005. Strong differences are still the rule and this has become more important with the growing number of countries coming in. This has led to the euro crisis that we will be watching for a long time before it is somehow resolved.

Thus cooperation between Europe and Japan will not be possible if it is to try to fix the difficulties with their social models, as these models are diverse. However, if the attempt is to build a new model, a mixed model of Japanese and European ones different from all the others, it could be mutually beneficial to cooperate in the search for a good design, a workable design. In European and Japanese social cultures, society has a meaning: we do think, in general, that we cannot escape living together and that the best thing for individuals is to agree on common rules and observe them. In some other countries, such as the US, the pioneer culture is based on the idea that each individual must carve a niche by competing with others to get the better place. This is their primary motive, a different one. Competition is first, cooperation comes, if at all, afterwards.

In France, as in Japan, we can contemplate a refoundation of economic activities and of the sharing of its outcome on the basis of cooperation first. Competition, I believe, only results in producing winners and losers. Competition can be justified only when it can create teamwork or cooperation, as in the case of Japanese management in the old days.

**JS**

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