

Think Tanks & Universities

– Key Players in Achieving Prosperity in the 21st Century



Author Naoyuki Haraoka

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Knowledge & Wisdom Often Not Recognized in Democracy

Democracy is achieved by ordinary people and this is one of its positive aspects. But any political system created by only a small number of people, however wise they may be and however much knowledge they have, runs the risk of ending up as a dictatorship that exploits human rights, in particular freedom.

One important question is whether ordinary people can choose the right policies to make a nation prosper in a democratic system. Are their decisions always based upon sufficient knowledge and sources of wisdom?

The famous incident of the sinking of the Titanic after a collision with an iceberg 100 years ago indicates how long it can take to inform all the people involved in a serious incident about what has happened and what it is necessary for them to do in order to survive. As is well known, a serious underestimation of the damage caused by the collision, even by the ship's crew, exacerbated the situation, and when the captain and other officers finally understood the seriousness of the ship's plight they needed inexhaustible energy to inform the passengers of the exact situation and convince them to evacuate the ship.

Even in a case where damage is more visible, such as with the Titanic, it can be difficult to guide people with correct knowledge and wisdom. If such damage is not so visible, as in the case of a growing government budget deficit which could harm the national economy, it will be by far more difficult to convince people of the potential problems. People would cease to think about the future of the economy and be more concerned about their current standard of living, and would oppose any rise in the consumption tax rate even though this would be aimed at better preparing for an aging society, which is clearly inevitable, as most macro-economists mention in their analyses.

People are also more likely to be affected by propaganda aimed at their emotions rather than their reason. It is easy for people in Japan and China to believe that in the recent territorial row their governments have to be aggressive towards each other rather than respect the long-standing benefits of trade and economic relations between the two nations.

Professional and objective risk assessment, as in the case of the Titanic, and professional and analytical policy assessment, as in the other cases, may be difficult for people to accept as proper and sensible advice.

Japan Facing Several Difficult Challenges

Many policy professionals in the government and knowledgeable members of think tanks and universities in Japan share the view that the country is now facing a turning point – from where it can continue to be one of the leading nations in the world or begin to wither and decline.

Continuing deflation since the beginning of the 1990s has been joined by other challenges today, such as an energy crisis due to the potential shortage of nuclear power following the Fukushima crisis, a possible deficit in the current balance caused by a decline in Japan's industrial competitiveness in addition to a growing fiscal deficit, and increasing concerns about the hollowing out of industries provoked by a strong yen and high energy costs.

As deflation continues, unemployment remains high and wages possibly decline, non-permanent employees in particular, whose share of the total labor force is increasing, will suffer from serious poverty.

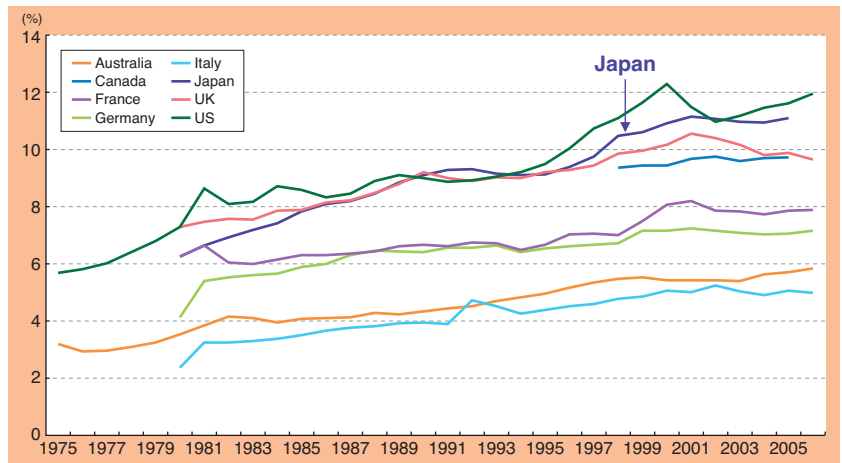
Under these circumstances, it will be important to strengthen trade and investment relations with other economies, in particular the most dynamically growing Asian countries, Japan's neighbors. Even though hollowing out would proceed through increasing FDI from Japan into these countries, reflecting the declining competitiveness of Japanese industries, the strengthened production networks between these countries and Japan through such FDI would help revitalize Japan's domestic economy through increased business opportunities created by them.

How Japan can utilize a business-friendly environment to maximize the potential benefits from such strengthened economic relations through relevant foreign policies is the next question to be addressed. What would be the best position for Japan in current geopolitics, in which China is the second-largest economy and the political power of the United States is declining but still maintaining an important influence on Japan's foreign policy in terms of national security? A political question has to be answered to resolve the economic questions.

Another important breakthrough in this unprecedented crisis would be innovation in technology as well as business management. How Japanese companies create new technology and new demand to get the economy out of its deflationary state and strengthen industrial competitiveness would be another crucial question.

The Japanese business model, characterized by lifetime employment and its seniority system, would have to be reexamined in light of its effect on encouraging innovation. Paternalistic management may not be friendly to creativity.

Investment in intangible assets as a percentage of GDP



Source: COINVEST [www.coinvest.org.uk] and research papers, 2009

On a different note, Japan faces like all other nations a common global challenge, namely global climate change. It will be increasingly difficult to achieve a sufficient reduction of CO₂ emissions as was expected before the nuclear power crisis, since the new reality after Fukushima is that our economies cannot heavily depend upon nuclear power, an important clean energy. We will need to explore solutions such as developing environment-friendly technologies that realize full utilization of renewable energy sources or implementing more energy-saving economic systems or industrial structures.

Such a wide range of agenda items needs to be examined by all the people in a democratic process and Japan will need to find solutions as soon as possible for the restoration of its domestic economy and for its survival as a major part of the global economy.

Knowledge-based Capital as Key to Growth for OECD Countries

Among the various issues mentioned so far, let us look at some relating specifically to business. Business firms in other OECD economies all face the same difficulties as Japanese businesses do. They all need innovation and infrastructures that would enable their innovations to win in increasingly harsh global competition.

The Directorate for Science, Technology and Industry (DSTI) at the OECD has made an analysis of the sources of growth among member countries. It took note of the new concept of knowledge-based capital and its increasingly important role for business growth. According to the DSTI, knowledge-based capital mainly consists of three categories: computerized information (software, databases), innovative property (patents, copyrights, trademarks, designs) and economic competencies (brand equity, firm-specific human capital, business networks, organizational know-how that increases enterprise efficiency).

Knowledge-based capital as defined above is by nature a collection of intangible assets. These would certainly result in a competitive edge in today's serious global competition, since they are the very assets that would determine a capacity for innovation. The *Chart* shows how such knowledge-based capital is increasing its weight in GDP among many key OECD countries.

In OECD economies, increasing sophistication of production in many industries is being observed. Also, against the backdrop of rising educational attainments, many products are becoming more knowledge intensive. These will increase the importance of knowledge-based capital.

In addition, as mentioned, competitive advantage in the age of globalization is increasingly being driven by innovation realized by investment in intangibles. The growth of the services sector and of information and communication technology (ICT) will greatly encourage the use of intangibles as well among OECD economies. These intangible assets are mostly based on skills, knowledge and

creativity, namely human capital. The quality of human capital will thus determine a nation's industrial competitiveness. Universities are important players in the game of business competition, since human capital is mainly developed by them.

Policy Entrepreneurship & Need for Intelligibility

We will need intangible assets not only in business but also in government, which is basically human capital piloting a country through stormy seas, such as those facing Japan today. The restoration of Japan as planned by the Japanese government can only be realized by policy entrepreneurship attained by investment in human capital. Universities and policy-oriented think tanks have a key role to play in raising the quality of knowledge-based capital utilized for policy entrepreneurship.

In particular, given the complexity of the wide range of issues we are facing today, we will need an interdisciplinary approach and thus think tanks are considered as particularly important in promoting solutions to issues due to their interdisciplinary nature. Many think tanks generally recruit researchers from a wide range of expertise areas, not only economics, political science and law but also other social science subjects such as sociology or psychology, and occasionally even from the areas of natural science. Energy and the environment, for example, is one of those issues where a synergy effect from dialogue between social scientists and natural scientists would be enormous.

In order to improve the quality of the democratic policy-determining process, we will definitely need to invest in such academic intangible assets. People should listen to knowledgeable academic experts and not put themselves at the mercy of their emotions like passengers on the Titanic. Experts, for their part, should try to be clear and intelligible to ordinary people, bearing in mind that their comprehensible words could save a nation from decline in urging ordinary people to choose the right and logical path. This will be a key to the success of a democratic nation in our century. **J.S**

Naoyuki Haraoka is editor-in-chief, Japan SPOTLIGHT, and executive managing director, Japan Economic Foundation.