

Interview with Dr. Francis Fukuyama, Olivier Nomellini Senior Fellow at the Freeman Spogli Institute for International Studies at Stanford University

# Capitalism & Democracy in an Age of Geopolitical Challenges

By Japan SPOTLIGHT

Prof. Francis Fukuyama, the Olivier Nomellini Senior Fellow at the Freeman Spogli Institute for International Studies (FSI) at Stanford University, is one of the most distinguished political scientists in the world today. As many readers know, he is the author of *The End of History and the Last Man* (Free Press, 1992). In this book, he provided a theoretical hypothesis that liberal democracy and economic freedom would eventually become overwhelming and thus the history of human development would end.

I think it relevant to have our interview with Prof. Fukuyama in our *Japan SPOTLIGHT* May/June 2018 issue, with its cover story titled “Anxious Individuals & Governments at a Standstill”. In this interview he responds to our questions on the current seeming crises of capitalism and democracy.

(Interviewed on Feb. 6, 2018)

## Geopolitical Crises

**JS:** Looking at the global political economy, it seems to be largely in good shape. But there is growing geopolitical risk in the world, such as the North Korea-China-US rivalry in global governance, Russia, Iran and so on. Given this, individuals may feel less secure in their daily lives, especially in Japan. Do you think this is a temporary phenomenon or a structural one?

**Fukuyama:** I believe it is structural. I think that the period from 1989 up until the financial crisis in the United States in 2008 was an unusual period of American hegemony in which the US was by far the most powerful country in the world and able to structure world politics pretty much according to its own interests, which were maintenance of a broad, liberal, rules-based order. But in the meantime you had a redistribution of power, so both Russia and China have returned to great power status — China may be bigger and more powerful than the US in a few years, Russia is being much more assertive, and you have other countries like North Korea that have developed a nuclear weapons program much faster than anyone anticipated. I don't think this is unusual — the American hegemony for that 20-year period was what was unusual, so we are returning to a more normal type of international order with more distributed power. Nonetheless, it does



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provide challenges and potential instabilities which come not just from the fact that the US is not in control the way it was at one point — with no one able to challenge it — but also because the transition to a more powerful alternative power is always dangerous in international affairs. Rising powers that become the dominant power in the international system can be destabilizing and I think that is why China is one of the biggest challenges right now, and certainly I think that is why in a place like Japan people feel more insecure.

**JS:** How do you think this geopolitical risk can be mitigated? Global governance should work better than what we see now. Perhaps cooperation among major countries like the US or Japan or the European Union could be the key to better global governance?

**Fukuyama:** I think that global governance really depends on having an overlapping multiple set of international institutions and agreements that deal with different functional areas. This, rather than a single organization like the United Nations, is the only way that we are going to achieve global governance, and it really depends on the issue area and membership of the organizations. So, if it is security and if it is Russia and China that are the biggest threats to security, then it doesn't make any sense to include them in the organization

and that is where you need the US-Japan security treaty or NATO or the US-South Korea security alliance.

On the other hand, issues like global warming or the control of infectious diseases or international terrorism or management of the global economy can't proceed without Russia and China and so in those cases you'd want organizations that include them. So I don't think there is a single template for how to organize the international system; it really depends on the particular sector and the particular set of issues you are dealing with.

## Domestic Political Crises

**JS: Looking at each country's domestic political and economic situation, the media and some leading thinkers mention rising populism as a factor in increasing uncertainty. This rising populism could stem from our own loneliness. Do you agree with this observation or do you think democracy will work well in eliminating the negative aspects of populism?**

**Fukuyama:** First of all, populism is not a universal phenomenon; it has appeared in Northern Europe and the US but on the other hand not in Japan or South Korea or Australia or in Canada. I think it is driven by a couple of things: firstly, economic anxieties. Globalization that has benefited countries in the aggregate does not benefit every individual in every country. In particular, older working-class people in rich countries have been losing employment to new middle-classes in developing countries like India and China. The other factor is rapid cultural change. That is why there is no populism in Japan or South Korea, as they do not permit large-scale immigration as opposed to most European countries and in the US where you have extremely high levels of foreign people who have arrived within the last generation. I think that is part of what is stimulating populism in those countries. I don't think there is an easy solution because it is rooted both in these long-term economic trends and in big cultural shifts.

**JS: I believe that increasing income inequality could be a factor behind the rise of populism. Market-oriented capitalism has had tremendous benefits for national economies and also is a source of economic growth. But many people today believe that human happiness is more important than economic growth and the OECD has finally developed a new measure for happiness. What do you think about these views vis-à-vis market-oriented capitalism?**

**Fukuyama:** I think it should have been obvious all along that GDP or economic growth by itself is not the base for human happiness; it just facilitates the possibility of happiness. Human beings value other things than money and resources — community, tradition, and stability — and in many ways rapid economic growth disrupts all of these. Modern capitalism by its nature is disruptive and tends to undermine stable communities; it enriches some people while impoverishing others, it destroys entire industries, and I think that the problem is that the disruptive nature of capitalism is constantly creating this instability in society that makes people unhappy. The political and social institutions then have to mitigate that through various kinds of social protections, welfare state, income transfers — but society never catches up because capitalism is so dynamic and evolves so rapidly that society is always a few steps behind. I think this is one of the major sources of unhappiness and particularly recently when you've had very rapid growth in information technology and job loss through automation and other things of that sort. We really don't have answers as to how to fix some of those problems.

## Capitalism Plus Democracy Would Still Win

**JS: Against this backdrop, do you think that the nature of capitalism is going to change in the future?**

**Fukuyama:** Not particularly. I think it is a very dynamic force, and the specific characteristics will change. For example, the last generation has a great deal of concentration of wealth in the hands of a relatively small amount of people around the world; I think this is probably intrinsic to all capitalistic economic systems and so successful systems are not capitalism by itself, but capitalism plus democracy, because the political institutions have to put limits on the market and they have to regulate the market and equalize outcomes to some extent by redistributing wealth from the rich to the poor; they have to provide basic social services and protections for people who are not winners in the system. That is the winning system — it is not capitalism by itself because that only leads to this concentration of power and wealth.

**JS: I think there are many kinds of capitalistic institutions in the world: American capitalism is different from Japanese capitalism and so on. Do you think these different capitalistic systems can co-exist in the future? Or could some kind of convergence process occur?**

**Fukuyama:** That is an interesting question. I think that it's not clear

to me which one of those will happen because if one particular system looks like it is doing better, the tendency is for other countries to copy that system and that tends to converge things. On the other hand, other societies are continually innovating and doing new things and so that tends to lead them to diverge. A lot of times, the system is structured according to cultural norms and that means that countries are never going to converge in a certain sense. Japan and the US are very different with regard to individualism and attitudes toward authority. I think this is rooted in the culture of the two countries and for that reason I don't think Japanese capitalism will ever resemble American capitalism and vice versa.

### The Aging Society

**JS: Next, the issue of aging societies around the world. In the case of Japan, it has very serious consequences and implications for our economy. We will need higher social welfare expenditure, but our fiscal resources are limited so it will be perhaps related to the question of democracy. How can democracy strike a balance between the needs of an aging society and the limits on financial resources?**

**Fukuyama:** I think that many countries deal with population decline through immigration, and Japan has simply not been willing to accept immigration. I think you wouldn't have this declining population if you permitted immigration; that brings on other issues like populism and anti-immigrant sentiment and so forth. On the other hand, one of the reasons that makes me optimistic about the future of the US is that it has been relatively good at dealing with immigration, and the population of the US is still growing; so that's one path that Japan could take but chooses not to. If you decide not to go down that path, it is not obvious that a decline in the absolute size of population and therefore GDP will necessarily make the country poorer; if you continue to have productivity growth on an individual level people can continue to do well but it sets up the problem of inter-generational problems between young and old people and how you are going to divide an existing economic pie. This is a really difficult issue for any democracy to try and deal with.

**JS: There is an argument which I have heard in Europe that achieving a balanced approach between the needs of an aging society and limited budget resources is extremely difficult, and we should leave that kind of decision to academics and scholars who are well-versed in economics and public finances. Would you agree that the role of experts should be**

**highly regarded in this context?**

**Fukuyama:** Simply deferring to experts would not work in a modern society for a number of reasons. First of all, I don't think that any group of experts will have the trust of the population as a whole to make these decisions in a democratic society where people can criticize and talk and so forth. You might be able to do that in an authoritarian society but not in a democratic one where people can vote, and if they don't think that the experts are promoting the interests of particular groups then people will exercise their power at election time to unseat them or they are going to protest or complain or one thing and another. A hundred years ago in Asian countries, you would have had populations that would have deferred to experts to make decisions but I don't think that any modern country can do this today because there isn't the kind of trust.

The other problem is that experts make really bad mistakes — it's not clear to me that a bunch of supposedly wise people who don't actually have their own interests at stake when they make these decisions are going to do the right thing as opposed to people who actually have to worry about protecting themselves and their children. In a democracy, you rely on expertise, meaning that you listen to people with expertise and they can advise you. It is fine that you want to inject expertise into an economic debate, but I think the idea that you will delegate the actual decision to experts is a non-starter.

**JS: In an aging society, there could be growing conflict between the young and the elderly as their interests are very different. It's happening in Japan, and in a democracy where older people are a larger population than younger people perhaps the older people's opinions are much better reflected in politics than those of the young. So younger people may be in a very frustrating situation. How could this be mitigated in your view?**

**Fukuyama:** The problem is even worse than you outline because there are relatively fewer young people than old people. But the other thing is that old people are much more easily mobilized politically; they vote in higher numbers and higher proportions, and they usually have organizations to represent their interests. So they tend to be over-represented in a political system. The young people are too busy looking for a job, trying to support families, getting married and so on, whereas if you are a retired person you can spend all day thinking about your pension and how to protect it and about politics and so forth. I don't know that there is any clear solution to this other than a certain amount of leadership where leaders try to

educate people that they need to understand their own self-interest in a longer-term sense, other than simply where their next pension check is going to come from. They have to understand that their children and children's children are not going to have good opportunities if they insist on taking all the benefits for themselves in their generation. I am not sure if there is an institutional fix to correct this imbalance between young and old people.

**JS: Japanese politicians recently decided to lower the voting age to 18. Might this be a solution?**

**Fukuyama:** That could help a little bit. You would still have to persuade those young people to actually vote. There are distortions in the electoral system that you could correct; for example, in Japan rural areas are over-represented in the electoral system relative to cities and the people that live in rural areas tend to be older than people who live in cities. If you fix that problem, you could also increase the representation of young people. All of these measures might help correct the system but they won't necessarily fix it.

**JS: There is an argument in Japan that young people might as well be given more voting rights. If there is one young person, he or she could have two votes where older people only have one vote. Could that work?**

**Fukuyama:** I have never seen a country that has made such a decision. It would be difficult politically to implement.

## The Rising Income Gap

**JS: I said earlier that I think the rising income gap is a factor behind populism. Do you think this rising gap would be the ultimate outcome of capitalism?**

**Fukuyama:** This is the argument of the French economist Thomas Piketty — that there is an intrinsic tendency — and that may well be true. The solution for that has always come through politics, as no capitalist system has ever been allowed to operate unchecked and unregulated. However, I think that the real issue right now is not this intrinsic character of capitalism; the real fear is technology. The most recent kinds of technologies related to information and communications privilege education and skills and cognitive ability, which are not evenly distributed in societies, and so a lot of the growing inequality is due to the spread of these kinds of technologies and I think that is going to get worse. The spread of AI and automation is something new in the mix, so I don't see any

clear solutions that have been offered by politicians.

**JS: Certainly, technology is one factor causing such an income gap, but should globalization be considered as the culprit for such rising inequality?**

**Fukuyama:** Globalization isn't that separate from the technology question because the reason you have globalization is that certain technologies for transportation and communications have made movements across national borders much easier, so the two are very related. Globalization has definitely had an impact on growing inequality. That is why people like Danny Roderick, a distinguished American economist, who have been looking at ways to safely back away from some aspects of globalization, are probably right, that this is something that people ought to think about.

**JS: How about education? Do you think it offers a solution?**

**Fukuyama:** Economists would favor education as a solution, but the trouble is that it may not be a practical solution in several respects. Many education systems in many countries are impossible to reform. Theoretically it is possible but politically you have too many entrenched actors like teacher's unions and rigid political systems that don't allow educational reform. The second issue is that there are limits to what education can do. Part of the problem is cognitive and mathematical ability. If you are good at quantitative reasoning you can get a good job, you can earn a high income in any number of fields. A hundred years ago that wasn't true — you could have been a bookkeeper or an accountant who wouldn't earn that much money but today you could be a statistician, a geneticist, a programmer: there are a lot of high-income jobs. Unfortunately these kinds of abilities are determined biologically and are not evenly distributed. If a truck driver loses his job at 50, he can't really train to be a geneticist or big data analyst.

**JS: Against the background of this innovation and globalization, it may be important for us to enhance labor mobility. Labor market reform should be key to achieving economic growth and mitigating income inequality. Would you concur that to this end lifelong education will be very important?**

**Fukuyama:** These are two separate issues. Lifelong learning is a good idea and everybody should be putting such programs in place. Labor mobility is a little more complicated because what labor mobility has meant in Europe and the US is that people come in from

low-wage areas like Mexico or Eastern Europe, and they displace workers in the country itself, and so this has actually widened the income equality gap as a lot of these new workers are willing to work for much lower wages than native workers. It is a trade off, because greater labor market flexibility is likely to reduce unemployment rates. France right now has a 25% youth unemployment rate and if they had a flexible labor market a lot of those young people would be able to get jobs. On the other hand, income inequality will likely also increase because a lot of those jobs will be low pay and so forth, so it is a bit of a trade-off between employment and income.

**JS: You mentioned ethnic diversity as another source of political instability or populism in Western countries and that Japan would be immune to this because it has very little ethnic diversity. However, in Japan as well we see a growing income gap between permanent and non-permanent workers. That kind of difference seems to be causing confrontation. Would diversity always cause such confrontation?**

**Fukuyama:** I think that ethnic diversity is really quite different from this labor market diversity; culture attaches itself much more readily to ethnicity because different ethnic groups tend to have different cultural values. In that respect you have to consider them a bit differently. In Japan, as I mentioned, it's a trade-off because you are facing this severe demographic crisis now because you don't allow immigrants in large numbers and that's a really big challenge that is difficult to meet. On the other hand you don't have to worry about ethnic conflict, about populism, about anti-immigrant groups rising and so there are disadvantages and advantages.

I continue to think that diversity is actually a good thing in certain fundamental ways because if you don't have a degree of diversity you get fixed in a certain way of doing things, so it is good to have people from different backgrounds compete with each other and come up with new ideas; that was one of the great secrets of Silicon Valley. On the other hand, you don't want excessive diversity as this can create a lack of consensus about basic values and this is the challenge that the US and Europe are facing right now.

**JS: While European countries and the US may regard ethnic diversity as a sort of problem, Japan is considering ethnic diversity as a future strength. Do you think Japan should make more efforts to diversity?**

**Fukuyama:** I think it should. I think that is one way of solving the population problem and I think it would be good for Japan to have

alternative ways of doing things and seeing culture from a different standpoint.

## Japanese Socioeconomic System

**JS: In my view, not only Japanese but people all over the world are less assured about their future due to the issues we have already talked about. However, there are some unique problems in Japan. People have been protected by the lifetime employment system as well as seniority-based promotion system in their companies. After retirement they expect to be taken care of by their children. These values are now in a state of flux. Do you think Japan is losing its strength through such changes?**

**Fukuyama:** I think that the seniority wage system and lifetime employment were deliberately designed in the postwar period. They didn't always exist and so in the late 19th century (in the Meiji Era) and early 20th century there was much more labor mobility and you didn't have this system of lifetime employment in big companies. I think that system worked well as long as Japan was growing. In the high-growth period this was very useful as companies could actually guarantee lifetime employment and stability, but that period is over and Japan needs much more productivity gains and innovation and cannot assume a high rate of per capita GDP growth, so I think such a system has become an obstacle to innovation, so companies need to go bankrupt and new companies need to emerge. There needs to be more competition in protected industries and none of that is possible with the lifetime employment system; I think that this system has been under stress since the bursting of the bubble in the 1990s. That really marked the moment when Japan's growth slowed down and you got out of this high-growth period.

So, I think that the stress on that system has been going on for 20-30 years and I don't think it will be sustainable in the longer run. This is not a cultural thing for Japan; Japan did not have this system prior to the late 1940s, it was created under certain circumstances to build stability in postwar Japan and was made possible by that high period of growth. But it is not a necessary system and not one that Japan necessarily enjoyed.

**JS: Young people in particular in Japan are frustrated by the existing institutions dominating their lives, and prefer more individual-based institutions. However, the old institutions in Japan still assume the large family system and lifetime employment systems and so on. Should such values and institutions be**

### modified or improved?

**Fukuyama:** I think they need to be. One of the reasons for Japan's low birth rate is that this system where the wife takes care of her husband's parents just doesn't work. It doesn't work in a world where women have a high degree of education, and I think this needs to be the responsibility of the state and not of the family. The Chinese are seeing this with their one-child system — with a low birth rate it is simply not possible for working-age children to devote enough time and energy to take care of their parents so there needs to be some kind of public system or external subsidies for doing that sort of thing. That is another social system that does need to change.

### Other Issues — NGOs, Cyber-security

**JS:** In the US the role of NGOs is very important. Do you think that private persons and businesses should be more responsible for public policy issues?

**Fukuyama:** There are different kinds of roles that NGOs play. Increasingly in the US and Europe, NGOs are actually responsible for providing social services — historically, this was always the case. Religious organizations used to take care of poor relief, and many welfare functions and education, and they were taken into the state only in the early 20th century. So historically it has always been the case that private organizations played an important role. I think that this will happen inevitably in modern societies because states are not competent or responsive enough in providing services and so sometimes private provision works better.

The other role of NGOs is advocacy; they are the ones who actually monitor the state and make sure it is performing and hold it accountable, and that is probably the most important function of an NGO today.

**JS:** Do you think that the activities of NGOs are a kind of barometer of democracy?

**Fukuyama:** There is a long line of thinking that says that civil society is one of the key components of a successful democratic system and I think that is probably right — precisely for this reason: that they are important for holding the government accountable and ensuring that the government is not getting away with things that they shouldn't be doing.

**JS:** Cyber-security, fake news and other challenges from cyberspace could control people's voting behavior even if they are not conscious of it. Could

### this be a challenge to our future democracy?

**Fukuyama:** It already is. It is pretty clear that the Russians interfered in the American election last year and actually may be responsible for electing Donald Trump, which is a pretty big consequence. This has been going on in quite a few elections in many parts of the world and at the moment we don't know how to deal with this, we lack a system for mitigating it. My own research center is engaged in a couple of projects to tackle this issue but at the moment we don't have a clear answer. In Europe they are trying to take a regulatory approach to this. It won't work in the US but it might work in Europe. I think they have to be careful that they don't undermine freedom of speech values if they do too much regulation.

### Overall Assessment

**JS:** As a distinguished historian, how do you assess overall the current global political economic situation? Are we in a great transitional period or in the process of normal development?

**Fukuyama:** I think we are in the midst of a really big transition. In the last 30 years we have seen this very rapid expansion of both globalization and democracy and now there is a big backlash against it. I think that the entire liberal international system that has been created is being threatened by this and so it is actually quite a dangerous moment in world politics as prosperity really depends on the continuation of this system.

**JS:** What do you think about the role of international organizations such as the World Bank, UN, IMF, and OECD?

**Fukuyama:** You need international cooperation in a globalized world and so many of these organizations help with these problems. Some are not terribly effective, like the UN, especially in domains like security, but I don't think we can get along without them at this point. **JS**

Written with the cooperation of Mayu Fukutani who is a freelance translator.