

Roundtable on Global Anxiety & the Future of Democracy & Capitalism: Are Women, NGOs & Local Communities the Answer?

By Japan SPOTLIGHT

The world is facing increasing anxiety over developments such as artificial intelligence (AI) and the Internet of Things (IoT), as well as various geopolitical uncertainties including immigration, climate change, income disparity and aging. All this threatens to undermine the current foundations of democracy and free market capitalism. Could the empowerment of women, the work of NGOs and strengthening of local communities be mitigating forces in countering the decline of “Society 4.0”?

Naoyuki Haraoka, editor-in-chief of *Japan SPOTLIGHT*, invited experts in business, economics and politics from China, the United Kingdom and India to discuss these global issues and to predict future developments for the world and Japan specifically. The panelists were Long Ke, senior fellow of the Fujitsu Research Institute, Robin Harding, Tokyo Bureau Chief of the Financial Times, and Sanjeev Sinha, president of the India Japan Partnership Group/Fund (IJPG).

(Roundtable on March 6, 2018)

Participants



Long Ke



Robin Harding



Sanjeev Sinha



Naoyuki Haraoka

Anxious Individuals

Haraoka: I'd like to offer an outline of today's discussion which consists of two parts. The first part is about the general context of the world economy, politics and society. I believe the issue of anxious individuals is a serious common global phenomenon. The second part will focus on Japan specifically. My first question is whether you agree with my view about these anxious individuals and if so, what do you think are the factors?

Harding: I agree it's a common phenomenon in developed countries but not developing countries. I think there are three factors that you can identify: the emergence of China as a global trading power; the second is what's called skill bias and technological change that has produced the middle class workers in emerging economies; and the third factor is slow growth, which is linked to aging but is not the

same thing.

The rise of China in global trade skewed by technological change and slow growth are the root causes of income inequality. That's the mechanism by which you get your phenomenon of anxious individuals and governments at a standstill. I see populism as a symptom rather than a cause of that.

Ke: Well, I think we have been facing some difficulties about leadership. Who takes responsibility to drive the global economy and to create the global rules of law for example? I agree about the Chinese factor as an emerging economic power but the shortage and lack of institutions could be a threat to global society. So, especially under the Xi Jinping administration, they want to shift the rule of law to “rule by the law”. Another point is that the aging society will lower the economic development in China but I think Japan offers us some good experience.

Sinha: Briefly, I think that anxiety is going down if you look at young people. The older people of the previous generation may have difficulties in coping with the change. Youth are very carefree and quite upbeat about the future. Life has become easier. Economic productivity has gone up and for that matter has contributed to the lower cost of living while the quality is improving. The Internet and information flows are making it easier to find jobs, including temporary jobs. It is easy to find a job nowadays.

Populism & Increasing Income Gap

Haraoka: I think there are a couple of things driving anxiety. One is a rise in populism and the second is the increasing income gap. The increasing income gap may be the reason for the anti-globalization and anti-elitism sentiment which exists and that might explain the outcome of the election in Italy on March 5, 2018. Do you think those are factors driving anxiety all over the world?

Sinha: Again, these factors are different for the younger and older generations. For the younger generation the income gap is a motivating factor, because they see the opportunity to be rich and are motivated and have drive for the future. But older people, of course, find it frustrating. A lot more people are popular now than with the previous paradigm and this popularity phenomenon is more spread out and yet is more volatile because a lot more things are happening.

Ke: I think populism may present a struggle for the moment in global politics but I don't know whether it could damage the stability of global society. I still want to argue about other geopolitical factors, like Korea for example. Europe is OK but in East Asia we're facing the serious Korean problem. We don't know what will happen between South and North Korea and whether Japan and the United States can control or manage such a situation.

Haraoka: Are populism and income gaps the result of an aging society or the post-industrial revolution? Is this a crisis of democracy? Some people say we should have a group of wise men to determine necessary solutions to the issues facing us today, including reducing the fiscal debt. This council would in effect correct and change the current model of democracy. Would that be a good idea if indeed our democracy were facing such an existential crisis?

Harding: I thoroughly disagree with the idea that we should have councils of wise men. I don't think the councils of wise men did a

very good job with the Japanese economy in the 1990s and 2000s. I do think there is something of a crisis in the institutions of representative democracy, not so much in Japan, but certainly in the US and the UK, where a number of things are happening.

One is polarization. Another is increasing dominance and politics by elites. As Sanjeev says, in this world where information flows freely, people are not willing to hand over decision making to some elite figures. They have their own opinions and they expect them to be taken account of. Thirty years ago, I do not think the British government would've conceded a referendum on the European Union but they had very little choice this time around.

Ke: The debt problem is a result of slow economic growth. The problem here is how to generate liquidity to sustain economic development. Japanese people experienced the bubble economy but when I go back to China it is obvious that Chinese officials don't care because they never experienced such kind of crisis. Complicating the issue is how to define democracy and creating new institutions. The institutions in Russia and Europe are quite different from those in China. Income disparity in China just damaged society, as also in the US. Compared with China, the US and India, the Japanese do not see it as big a problem. This is a country more familiar with socialism.

Haraoka: We can talk more about Japan later but in Japan the GINI coefficient is now increasing, according to OECD statistics. One reason could be that the percentage of non-permanent employees is increasing and therefore causing an increasing income gap. Let's turn to the post-industrial revolution and what we call Society 5.0, AI, IoT and those things that are allegedly taking human jobs and causing anxiety. Do you agree?

Sinha: IoT and AI are increasing economic productivity tremendously and that's why the cost of living is going down tremendously. I think the Japanese socialistic model is probably the only solution in the near future. The pure and extreme form of capitalism leaves too much wealth and power concentrated in very few people. So distribution of wealth needs to be seriously adjusted. But having said that, because economic productivity is very high it is not a big concern.

Haraoka: You are optimistic. How about you Mr. Harding? I think in Europe there is growing concern about jobs being replaced by AI and automation.

Harding: There's lots of talk about this but I see very little evidence that this is happening. Jobs have always been displaced by

technology and new jobs come along. I really don't see any evidence that this time is different. However, these recent technologies have not been as creative of good jobs as previous technologies have. IT has tended to displace lots of middle-income jobs. I think at the moment it's more of a distributional issue versus "have jobs or not have jobs" issue.

Globalization or Technology

Haraoka: What has the greater impact on jobs: globalization or technology? US President Donald Trump is saying that globalization is taking jobs, but reports from the Brookings Institute claim that technologies like AI and robots are eliminating jobs. Which do you think is right?

Ke: I would like to ask, how do you define globalization? I think China benefited very much in the past four decades with dramatic economic growth. But I don't think the Chinese market and Chinese society are globalized enough. Strengthening transparency and governance in China is a problem. And we need to create some new global rules to govern, for example global transactions.

Harding: If I could just add to that. There are fairly good economic studies of the effect of China's entry into the global market versus skill bias (technology) and cultural change. I haven't looked at recent data but I believe most find a bigger effect for technology than for China or globalization.

Sinha: Globalization is just shifting the jobs. Technology is in effect reducing the labor hours and I would not call it losing jobs. This is a positive thing. Some countries are beneficiaries and others are losing. But it's their choice ultimately. If the US is outsourcing their IT to India, they are getting cheaper IT services in return. Globalization is ultimately a win-win game. It's not a zero sum game. Technology is definitely reducing the man-hours.

Capitalism in Transition?

Haraoka: I'd next like to turn our attention to the aging society which is causing some instability in various places. Sanjeev talked about declining productivity in an aging society and how to manage the impact on society. What should be a common question all over the world is how to raise productivity in an aging society. The OECD is now trying to create a new measure for welfare, well-being and happiness. Do you think that is the right approach, to modify the crises of an aging society?

Harding: I think there are three separate issues and it's important not to mix them up. One is the aggregate size of the economy. If you have fewer people and more of them are retired, then the aggregate size of the economy will be smaller. That poses challenges with things like retirement incomes and funding of healthcare systems. The second question is productivity per person. I haven't seen much evidence that aging reduces productivity per person because older people have more experience than younger people and tend to get more productive with experience.

The third question about well-being should be a separate question. Namely, is output the right measure to record human well-being or happiness, or do you need to measure something else instead? That's been a very long-running and controversial debate. The difficulty has always been deriving a useful metric. GDP is very useful and so far no one has come up with a useful well-being measure. It is very hard to know what is the thing you want when you talk about well-being. The classic example of this is people in poor societies say they are happier when you ask them in surveys.

Haraoka: The next question asks whether capitalism is in transition or not. The disparity of income and wealth is increasing, even in Japan. It is a major reason why radical populism is rising and is fomenting unstable political regimes in many countries. On the other hand, major developed countries are all suffering from increasing debt problems and therefore their fiscal policies seem to be inadequate. An aging society will require considerable social welfare expenditure and yet fiscal policy cannot fulfill that request. What do you think would be a solution to this chokepoint in capitalism?

Sinha: I think higher taxes make sense since that is the only way to maintain a better state as well as universal income and also to reduce the disparity. The debate on capitalism has begun. To maintain the capitalistic system while promoting the welfare safety net, higher taxes are essential. And that is the model solution for the universal income that will become important when AI, IoT and automation supplant more jobs.

Harding: I don't worry very much about government debt at all. People have been worrying about this for decades and there are reasons why this is not a serious problem. I don't see any great likelihood of Japan's debt or rich countries' debt posing problems in the near future.

Capitalism on the other hand is an interesting question. I don't see much threat to the free market model but capitalism as we used to think of it doesn't really describe the situation we have in the modern world. Now there is a huge abundance of capital and what we are

short of are profitable ways to use that capital. So I do think capitalism is in transition since it isn't working the way it used to.

Ke: I think there are two kinds of income gaps: good income gap and bad income gap. I came from a socialist country. I don't like equality from a socialist perspective because in these societies some people work hard and the income gap is reasonable. You cannot equalize by government and that I think is a very bad income gap.

Making Anxious Individuals Proactive

Haraoka: Unfortunately, the merits of Japanese economic society are now collapsing. What are possible solutions that will enable these anxious individuals to live a proactive life in this uncertain era? I suggest education that encourages creativity. Creative individuals could overcome the crisis of technology by getting better jobs in spite of AI and automation. Secondly, I think risk management dealing with aging is very important. A third area addresses evidence-based policymaking. This notion treats the creation of new economic indicators to measure well-being and life satisfaction in an aging society where we cannot expect high growth rates or high productivity. In order to achieve such complicated and challenging policy goals we need many more statistics, metrics and analytics. Evidence-based policymaking would be necessary to respond to the needs of the new society facing a crisis of transition. What are your prescriptions to help people live a more proactive life in this period?

Sinha: I think it is important to teach about well-being because machines will do machine work and IT will take care of technical work and the goal for human beings is to be more like a human. So the emotional quotient, EQ, of education is to foster psychological well-being and learning how to be happy, how to be good at teamwork, to be a good leader. I think some of those softer qualities will become more important.

Harding: I think what you are talking about is being proactive which means being able to make riskier choices rather than having to seek out security. I think the crucial thing is to provide a firm economic foundation on which people can take risks. One part of that requires governments to act strongly to sustain demand in their economies. A second important area includes distribution of incomes, healthcare systems, welfare net and quality education. All are very important in providing people with the security to live lives where they feel safe taking some risks.

Sources of Japanese Anxiety

Haraoka: In the second major part of the discussion we're going to focus on Japanese issues relating to society, economy and policies. I think the Japanese management system illustrates what Mr. Ke mentioned regarding Japanese socialism. However, it is now collapsing and is causing a divide between the rich and the poor, between the competent and the not so competent. It is altering Japanese society and economy. What is your impression of the demise of the Japanese management model?

Sinha: I feel it is changing. Certainly, the old system is collapsing. If the productivity of technology were not there this would be a serious problem. But I think that because of better productivity and lower cost of living the new system is still manageable. Young people in their twenties or thirties are quite carefree even though they don't have lifelong employment. Of course some people are worried, the weaker sections of Japanese society for example, single mothers. Still, I find on average, people are fine because of the new opportunities that have come around despite the problems of the old system. Therefore, they are not very concerned about the old system collapsing.

Haraoka: But I would argue that possibly young people could be concerned about their future because they used to have complete job security in the Japanese socialistic system. They didn't have to worry about looking for jobs in their thirties or forties. Now the lifetime employment and also the seniority systems in Japanese companies are collapsing. You cannot expect to be promoted automatically as you were in the past.

Harding: My observation would be that yes, for the last two and a half decades the old system has been weakening but it may now be making a comeback because now the economy is so strong and because the number of young people is declining. I see companies fighting to get those good young staff now, whereas before they could pick and choose. I think the question, as Sanjeev says, is whether young people still want that kind of career. Young people are now in the driving seat. It is more about getting what they want rather than whether the old system is stable or not.

Haraoka: What do you think about non-permanent employees? If I am correct, I think 50% or 60% of Japanese employees are non-permanent ones because they cannot find permanent jobs. Are they happy?

Harding: No, they're not. I agree with your point, but Japan has finally fixed its economic policies after 25 years running the economy below full capacity. We've already seen that ratio, of non-permanent employees, stop going up. Also, there are anecdotal tales of companies converting temporary employees to permanent employees. Let's see how we go in the next five or 10 years. My forecast is that the number of permanent employees will go up.

Ke: I think the new economic Japan is OK but the old economy is having a problem, something like Toshiba and Sharp. I think Japanese enterprises are facing some problems, for example governance, assessment and lack of transparency. So the young generation doesn't like to enter old enterprises like Toshiba. The problem is how to rebut these old industries and old economics. In the last 20 years Japanese enterprises didn't lose technologies, they lost brand value and elite engineers. Also the CEOs are aging very quickly. So I think you need to do more to refute or invalidate such a system.

Current Japanese Reforms

Haraoka: We agree that currently the world is striving for policies that ensure more equal income and wealth distribution. The world is pursuing a mixture of socialism and capitalism. But in Japan reforms seem to be focusing more on the pure aspects of capitalism and losing the socialistic components. Is this good news for Japan or bad news?

Sinha: I think Japan has been a little out of sync with the world in many ways and this is one of them. Japan had some practices which the world, particularly the Western world, didn't appreciate so much and there was criticism in the media and in the research community. Over time Japan bowed down to the pressure and started to adapt to what Western research and Western media was suggesting it should do. And one of them was to get rid of the socialistic practices. Now, however, the world realizes that Japan had the right mix of capitalism and socialism and it is trying to catch up. Again, Japan is out of sync in reducing its socialistic underpinnings.

Harding: I think there is a difference between redistributive policy and a very prescriptive conformist society. I think the latter is breaking down and younger Japanese are more individualistic. They have their own dreams and I think that's a great thing. I don't think it's necessarily a great loss if you don't have a company where everyone's out drinking with each other every night, going on company trips and singing the company song. I think the Japanese

people are happier not to have that.

On the other hand, the social institutions for maintaining economic policy are very important. As Sanjeev says, the rest of the world now looks to Japan with envy. I point to things like the high inheritance tax rate, very high levels of literacy and a good fallback care system for the elderly. All of these are institutions that Japan has got right and I don't see much talk about getting rid of them. Market reforms to open things up are also a good thing but are quite a narrow area of activity at this time.

Ke: Young Japanese people are going to face challenges from India and China and Southeast Asia. I think the challenge is very good for the young Japanese generation but the problem is how to educate them by not only universities but within society. In this era of AI and big data there are a lot of opportunities. The trouble is using those opportunities to strengthen their competitiveness.

Japanese Immigration Policy

Haraoka: Earlier I omitted a certain element that is possibly a cause of the rise in populism in Europe and the US. That is the question of immigration and cultural diversity. In Japan, however, accepting immigrants through reasonable and relevant immigration policy controls might mitigate the problems of our aging society. Accepting immigrants could be a good solution to declining labor productivity and also this diversity might revitalize and stimulate creativity in our society. What do you think?

Harding: I think each society's choices about immigration are a choice for that society. I don't think foreigners should be giving Japan any advice about immigration. What I would say is that it's a mistake to let economic concerns drive immigration decisions. That's a broad social decision and it should be made for those various reasons, and I'll stop at that. I think it's very unwise for foreigners to give advice about immigration.

Ke: Immigrants are necessary for Japanese society. But the problem is how to educate the foreigners. I was a foreign student at a Japanese university and I think in this society Japanese language and Japanese culture is very important, otherwise you cannot work together with Japanese colleagues. So I think that education is very, very important.

Sinha: I agree that immigration is important, and as Robin said, the economy should not be the reason for the policy. Business and economic cycles fluctuate every five to 10 years but the impact of

immigration will last much longer than 10 years. This is a long process and that's why the cultural aspects are very important to think about. Before accepting foreigners, is there is a way to ensure their cultural adaptability? Would they be comfortable in the Japanese culture?

Harding: The other point on immigration that I wanted to add is that I think that as long as economic opportunities are good, then people's willingness to accept immigrants is much higher. Where things really go wrong is when you have economic stagnation, like we see in the European Union and the US, combined with high levels of immigration. That's a recipe for tension. I think Japan needs to consider whether it can provide housing for immigrants, healthcare for immigrants, jobs for immigrants and to consult the native population as well, when it's deciding its policies. The current policy will guarantee Japan a steady supply of low-skilled workers in convenience stores and factories. But Japan is very unattractive at the moment for highly-skilled workers.

Women, NGOs & Local Communities

Haraoka: There are three things emerging in Japan, which were not well deliberated or respected previously in our society: women, NGOs and local communities. How do you think these three components could influence anxiety and government inertia and contribute positively to a more proactive life?

Sinha: Yes, they will create a strong social fabric. I think in the post-industrial world one big problem is loneliness. There is not much interaction even within the family. Interaction is not really necessary anymore. You can eat out; you don't need your wife to cook anymore. So, more NGOs, women and our communities will help solve this important social problem as well as promoting interaction, which fosters harmony and safety.

Harding: These are three things which are all important. I would say women have to move a lot faster. Here we have a lot of a men sitting around the table which is still too common an experience in Japan. When my colleagues visit Japan the main thing they comment on is "all the men in this meeting" and "where are the women"? NGOs, I think, are absolutely the growth of civil society in Japan and have been really a positive trend. Local communities, I very much agree, as long as local community doesn't equal regional or rural community. I think that the strength of Japan's cities is one of the great things about Japan, so local communities in cities are important.

Looking to the Future

Haraoka: My last question is a pretty broad one. What would be your prediction for the future of the world, and Japan, overall, based on your observation about rising uncertainties?

Sinha: A dystopian world as in the *Matrix* movie and some of those science fiction movies where one or two large enterprises control everything. All human beings are assets and they are employed for some means but they are happy like people in the *Matrix* were. That may be a little exaggeration, but if we are not careful the world will lead into that situation and unfortunately that seems to be pretty much the economic trend because technology is going into a virtuous cycle of itself.

Haraoka: I asked the same question to Dr. Francis Fukuyama, the well-known author of *The End of History and the Last Man*. He said that capitalism and democracy would survive somehow in the future. "You don't have to worry about the collapse of capitalism, or the collapse of democracy." So do you agree with Dr. Fukuyama?

Harding: Basically yes. I think the grand trend, if you look globally, is for things to get much better. The advances in the last 30 years in reducing poverty, disease, war, and inequality on a global level have been the greatest in human history. So that broadest picture is positive, but there are some very serious challenges to wrestle with particularly in advanced societies where things that used to work don't work the way they used to.

I think Japan is actually in a very good position to deal with some of these challenges because of the strengths of its social cohesion. Other advanced countries have a lot of thinking to do regarding challenges like global warming. We just don't seem to have it in us or even within individual societies let alone at the global level to take the political actions that are needed to deal with the problem.

Ke: I think that Japan could be more powerful in a globalized society through the efforts of JEF. If the world could globalize more I think it would be happier.

Haraoka: Thank you so much for joining us for a very good discussion. **JS**

Written with the cooperation of Daniel Patrick Considine, who is a lecturer at major Japanese universities and consultant for Japanese corporations and medical institutions.