

Examining “Multiple Rules” in a Country

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The Age of Innovation

There is no doubt that contemporary society is exposed to a big wave of technological innovation and we do not need to use a catchphrase like the “Fourth Industrial Revolution” to attract people’s attention to this phenomenon. There are so many topics flying around concerning new technologies such as artificial intelligence (AI), driverless cars, virtual currencies and bitcoin or blockchain technology. These new technologies are already becoming routine and thus everybody knows about their significant influences upon our economy and life.

New Technologies & Social Rules

With such remarkable innovation in progress, one of the key issues will be how to adjust our rules, laws and regulations to new technologies. Because no matter how excellent the new technology is, we will need established rules for its recognition in order to practice and implement it in our society. It is also true that in recent years rules themselves often rely on new technologies. For example, building up a regulatory framework by taking advantage of the information obtained through the Internet of Things (IoT) where many goods are connected by the Internet, or accumulation of administrative data by taking advantage of blockchain technology are already under study. However, in many cases, we cannot fully predict how new technologies will affect social or economic activities. Even if we can predict it, in not a few cases the people being possibly disadvantaged by new technologies or rules would oppose their introduction. Thus it will not be easy to create rules relevant to new technologies and implement them. In considering this, we recently came across the new concept of a “Regulatory Sandbox”. This is a framework in which we would study the impact of an experimental regulatory reform as if it were done as an experiment in a sandbox. It has started to be introduced in a wide range of forms by many countries including Japan. But one difficulty that has been pointed out is that we cannot make progress on this without companies attempting to be actively engaged in such experiments and thus

without such companies we cannot afford to create rules that could strongly promote innovation.

It is true, on the other hand, that well-devised rules are key to achieving a country’s international competitiveness. In fact, in our world today, it is not only companies that are exposed to serious international competition but also nations themselves under serious competition for good institutions.

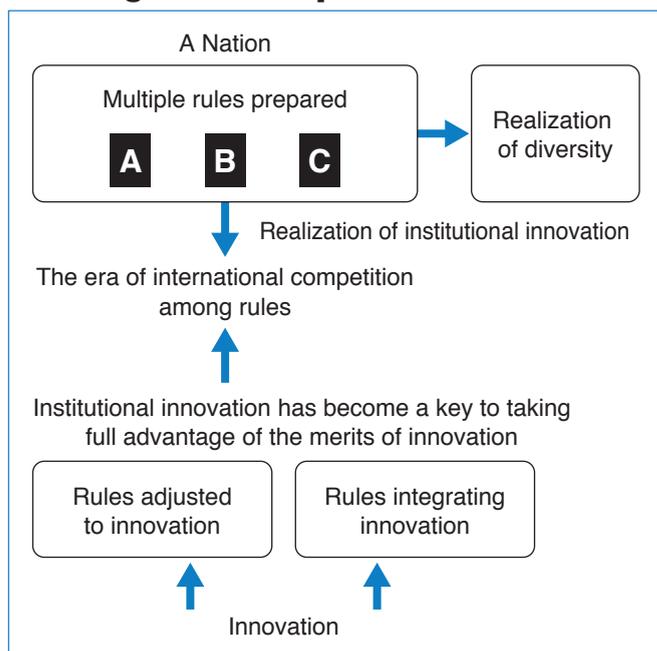
Investors, firms and even individuals as well will occasionally be concentrated in countries or regions where the rules enabling them to find it easy to work are well accommodated. For example, in Arizona in the United States many companies experimenting with driverless cars are now setting up offices or subsidiaries, since Arizona has prepared regulations to make it easy to trial a driverless car. There are, of course, other geographical reasons for this such as the availability of many roads for implementing experiments with driverless cars. Their regulations, in addition, were instrumental in attracting not only US domestic companies but also companies from all over the world. Judging from this, we can see that a willingness to implement institutional reform in accordance with innovation is crucial not only in terms of securing a nation’s or a firm’s international competitiveness but also for the introduction of better technologies into our society.

A Policy to Achieve Institutional Reform

What would be the necessary policies to achieve institutional reform in accordance with innovation? One policy could be to prepare multiple rules within a nation. With this, inside the nation there would be competition among the plural rules and this could result in better rules being provided and a few of them could win the international institutional competition among nations (*Chart*).

Such an idea may look rather unusual for the Japanese, who are used to national governance by a single rule in Japan. However, it is not so unusual worldwide. In the case of the US, for example, under their federalist system, rules differ from state to state. Each state can have its own distinctive rule system. Arizona’s particular rule in favor of experiments for driverless cars has made Arizona a frontrunner in

CHART

An image of “multiple rules in a nation”

Source: Compiled by the author

that field. There are, of course, ample possibilities for other states to compete against Arizona in creating a better rule for experiments for driverless cars. In another field, Delaware has its own rule for corporate governance, clarified by its Companies Act. This legislation works well in attracting many companies to Delaware, at least in terms of registration.

There are many other nations that adopt federalism besides the US. China, for example, allows each province a certain degree of freedom in setting up independent rules, contrary to our image that China is ruled by a strongly centralized political system. In particular, Shenzhen, designated as a “special district”, has different rules from those in Beijing. One of the merits of multiple rules in a single country is, as mentioned above, that competition would be an incentive to improve. Another merit is that co-existing different rules would meet a variety of needs. We are living in an era of technological innovation but also living in a world of diversity. Our values are diversified and diversity is being pursued in working styles and lifestyles. Therefore, we can build up a social system meeting a variety of human needs by realizing institutional diversity.

In modern times, Japanese society has proceeded rapidly in one direction, because it has been a society characterized as one with a single target — namely to catch up with Western nations. In such a case, diversity has not been considered an important value, and thus as individuals we have been asked to do our best to run in the same direction without having a different view from others or being engaged in different activities from the one pursued by the average

person. But now is different, in the sense that the realization of diversified values is being widely considered, and therefore a diversity of rules will also be required in accordance with this trend.

How Can We Achieve Multiple Rules in Japan?

Meanwhile, it is true that it will be difficult at this stage in Japan to explicitly approve multiple rules that are very different from each other. This is because the integration of the nation has been assured by common and unified rules. In addition, for example, if each local autonomy were to independently adopt a different IT system, there would be enormous costs for the integration of those systems or creating exchangeability among themselves. This is another difficulty.

In spite of these difficulties, even in the current situation, there are more cases than we could imagine where some local areas’ indigenous regulations, differing from those of other regions, are accepted in Japan. It would be more realistic to have more effective use of these and thus achieve more diversity among rules in Japan. A National Strategic Economic Zone must be one of those cases. This is a concept in which certain deregulations or institutional reforms are experimentally accepted in certain limited regions. The “Regulatory Sandbox” that I mentioned would be further introduced as well into this special zone. However, both “National Strategic Zone” and “Regulatory Sandbox” are mainly aimed at acceptance of deregulations as an exception and not to build up a different rule system to be accepted universally. Hereafter, then, we will need to think more actively about building up a diversified rule system in accordance with the idea that we must continue institutional innovation.

Also in Japan, though not so much as in nations with federalism, apart from a “National Strategic Economic Zone”, a certain degree of freedom in establishing a unique rule is even now allowed under local autonomy. Then, there is even now a certain scope in policies where local autonomies could formulate rules independently. In this light, even in the existing legislation in Japan, there could be a certain legal framework enabling us to achieve multiple rules. Therefore, we can take advantage of this framework more actively and with a number of alliances among those local autonomies positive about independent rules, they could achieve unique and independently devised rules.

This would provide local regions with renewed economic vitality not only in the sense that they could take more positive advantage of innovation but also in the sense that they could provide rules adapted to meet a wider range of local industries or people’s needs.

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