

# Development of Human Resources and the Japanese Economy

By Inoki Takenori

## Why Must Human Resources be Nurtured?

The Japanese economy remains in dire straits and hard-pressed to climb out of the current predicament despite the policy measures taken by the government. Japan overindulged during the feast of the asset-inflated bubble economy in the late 1980s, and the country is still struggling to escape from the aftereffects of the feast. Any feast is followed by sadness and darkness. The current melancholic mood prevailing over the country is based on the abyss into which it plunged, in reaction to the excessive hubris. All economic bubbles are accompanied by such aftereffects. We tend to blame such a malady on Japan's structure and therefore feel that the country would start moving in the right direction by merely revamping its system. But things are not so simple.

It is necessary for a country to overhaul its systems when the external environment changes and its once-adequate systems and regulations can no longer function effectively. On the other hand, reform of a country's systems or structure cannot simply lead to social reform. Put another way, systematic and structural reforms can never be sufficient conditions for social improvements. Winston Churchill said in a speech in November 1947, "It has been said that democracy is the worst form of Government except all those other forms that have been tried from time to time." Churchill's remark was an important admonition that all problems will not be solved even if a democratic system or mechanism is instituted.

Why is system reform alone not enough? It is insufficient because the achievements of a system depend to a large extent on what values its members have and how they behave. People tend to outwit regulations or systems with



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*Applicants for the legal profession are required to have extraordinary concentration and exceptional memory to pass the examination*

their cunning even if they have a good system. Accordingly, it is decisively important, from the viewpoint of an economic system or even a larger entity like a nation, to focus on how to nurture and select human resources.

The ancient Greek city state of Athens prospered under the leadership of the statesman Pericles in the heyday of its democracy. But Athens was plunged into absolute chaos and decadence following Pericles' death. In effect, Athens' democracy had been upheld by Pericles' integrity and bravery. In modern history, we see an example of a paradox of a system and its achievements in the emergence of Adolf Hitler under the Weimar Republic of Germany, which was considered a very idealistic constitutional system.

Any country must remind itself of the extreme importance of seeing what human resources are being nurtured and what leaders are emerging from them. In Japan today, we must, as a matter of

course, urgently discuss how to deal with the current economic woes. But we must also think, from mid and long-range viewpoints, about how nurturing of human resources and education can change the Japanese economic society in the future.

## Public-Minded Groups and Professional Groups

All highly industrialized societies, including Japan, now face two problems. One is whether a country has groups which think of its public interests or whether such groups are being nurtured in the country. Adam Smith supposed that society as a whole will become full of vitality and a high level of economic activity or welfare can be achieved in a market economy if people place the highest value on freedom and pursue their own interests while abiding by the rules of justice. In the 20<sup>th</sup> century, however, it became a problem that neither economic activities in the mar-

ket nor the political system of democracy could perform well without the existence of public-minded groups.

Another is that as economic society has become enormous and complicated, and mutual dependence with foreign countries has strengthened, highly advanced professionalism is increasingly required to make decisions on policy-related matters. It is only a fiction that politicians, who discuss public matters and make a final decision, have sufficient knowledge of all matters. It has also become apparent that there is a limit to the media's role of complementing such an unreasonable fiction.

It has become clear in international competition over the past 20 years that countries need capabilities not only to compete with foreign countries in the quality and prices of products but also explain and argue about their policies on the global stage. But Japan lacks such capabilities. This was clearly demonstrated on such occasions as the structural impediments initiative talks with the United States in the 1980s when Japan failed to fully explain its position and refute what the United States had insisted on. It is an indisputable fact that debating capabilities and the ability to make convincing explanations will carry considerable weight in future international competition. International discussions on the global standard are in fact a "rule-setting competition" regarding where technical standards should be placed. The role of professional groups participating in such discussions will become increasingly important.

### **Nurturing of Human Resources Takes Time; Imports of Human Resources are Difficult**

It takes much time to nurture human resources. It takes at least 10 years to educate a full-fledged doctor at a time when there are shortages of doctors. Persons with professional skills or techniques in a specific field can hardly be procured at once even if they are in short supply. Neither can such people be imported from foreign countries easily. In the European Union, for exam-

ple, capital and labor can move freely and unskilled or untrained workers as well as highly professional people like artists move across borders. But even in the region, ordinary, middle-class people who work in companies find themselves hard-pressed to stay over a long duration in a country or region, where their life basis changes and social conditions differ. Accordingly, human resources basically must be nurtured and selected domestically. Yet, Japan considerably lags behind other industrialized countries in nurturing professionals in various fields.

Below, I examine how human resources in Japan are nurtured in several fields.

### **Corporate Managers**

I conducted a joint study with an academic group headed by Koike Kazuo from 1994 to 1997 to compare Japanese, U.S. and German systems of nurturing university graduate white-collar workers. The study, aimed at illustrating 1) the characteristics of the practice of employing, educating and training white-collar workers in Japan, 2) how the system is linked to the productivity of Japanese companies and 3) how the system affects the Japanese economy, revealed the following points:

1. The academic background of Japanese corporate managers (division and section managers) is lower than that of their American and German counterparts. While most Japanese corporate managers are graduates of four-year universities, more than 60% of American corporate managers have master's degrees, including MBAs, or other higher degrees. In Germany, most youths enter universities after finishing the Abitur (grammar school leaving certificate) and engaging in the armed services or social services. They study in university for five to six years and obtain a master's degree at the age of 25 or 26. The rate of the holders of master's degrees in Germany is much higher than in Japan.

2. A survey of relations between corporate division and section managers'

current jobs and their major in university showed that the rate of those whose university majors matches their current job is lower in Japan than in the United States and Germany. In Japanese companies, for example, the position of accounting manager is often held by law school graduates.

3. Division and section managers in Japanese companies have been serving in their current company for the longest duration. German managers come second and American managers third. Japanese division and section managers took a longer time to be promoted to their current positions than their German and American counterparts. The promotion process is shortest in America.

4. If we look at the time when primary selection of division and section managers for personnel management, marketing and accounting, the representative positions for white-collar employees, is conducted, and the time when the possibilities of promotion become nil, the differences in selection and promotion in Japanese companies emerge seven or eight years after entry, while primary selection starts three or four years after entry in American companies. About half begin to fall behind their colleagues within 10 years after entry in American companies and within 12 or 13 years in German companies, while promotional competition in Japanese companies continues for more than 18 to 20 years.

5. In the desirable process of nurturing section managers for personnel management, marketing and accounting in Japanese companies, more than half have experienced different types of posts. In American companies, an overwhelming majority engage in work of the same professional type for a long period and experience various types of work within that post. Germany is somewhere in between.

The above features show that Japanese business managers are less professional than their American and German counterparts and undergo mainly on-the-job training, including training in basic work. Such a Japanese corporate training system is considered

effective in many business fields, but it must be noted that lately new business fields are emerging, which require higher professional education, such as at a postgraduate school level.

## The Legal Profession

There are some 21,000 people engaged in the legal profession in Japan. The rate, 17.0 per 100,000 of the population, is extremely low compared with that in other industrialized countries. The legal population per 100,000 citizens is 352.5 in the United States, 158.3 in the United Kingdom and 135.7 in Germany, eight to 20 times more than in Japan. Even in France, which is said to have a relatively small legal population among the industrialized countries, the rate is 61.3 or four times greater than in Japan. These figures uphold the case for expanding Japan's legal population. Incidentally, patent lawyers are also relatively few in Japan, numbering only about 4,000.

In New York, California and other American states, which have big cities where business activities thrive and the population density is high, the bar examination pass rate is relatively low at 60 to 70%, but in other states this rate mostly exceeds 90%. In stark contrast, the rate of successful candidates of the bar examination in Japan is less than 3%. As such, the bar examination in Japan is extremely competitive, and it is said that applicants cannot afford to read anything but statute books if they wish to be successful. These days, many prospective applicants for the bar examination skip law classes in university and instead attend special coaching schools to receive training for good reflexes, an element considered essential for passing the examination. Applicants are required to have extraordinary concentration and exceptional memory to pass the examination. Although the pass rate is 3%, the rate is practically much lower because only those who consider themselves capable of passing sit for it.

Against such a background, the Japanese government re-examined

methods of granting legal qualifications and at last decided to carry out a reform of the legal system, which included the opening of law schools starting in the 2004 school year. Under the Japanese legal system, the number of successful candidates of the bar examination is extremely limited, whereupon a limited number of experts compete in legal matters. On the other hand, the American system grants qualifications to a large number of people and lets them compete for achievements. Which system is better is another question. Under the proposed new system, the number of successful applicants of the bar examination will nearly triple in five years' time. Even so, the number of people in the legal profession is far from enough to meet the demand for legal services.

The number of patent lawyers is also very low in Japan, with the result that settlement of patent-related disputes takes long time. Another problem of patent disputes in Japan is that the amount of compensation the winner of a patent suit receives is extremely low. Accordingly, Japanese companies which have patent rights in the United States tend to consider it advisable to file a lawsuit in a U.S. court to settle a patent dispute with a foreign company. The average amount of compensation in a patent dispute in the United States in the late 1970s was \$3 million, about 20 times the figure of \$150,000 for Japan. In the early 1990s, the average amount of compensation in the United States (\$92 million) was 200 times the figure for Japan (\$460,000). (Above figures are from Nomura Research Institute)

In order to remedy such a difference, Japan needs to drastically reform the system of nurturing lawyers and patent lawyers. For the fast acquisition of patent rights and a speedy conclusion of lawsuits, a substantial increase in the number of lawyers and patent lawyers is essential. It is a matter of course that a mere increase in the number of lawyers will not settle the matter, but at least it is surely a necessary condition for improving the situation. This is also important from the viewpoint of deal-

ing with international disputes with verbal power. Currently, Japanese companies depend on foreign lawyers due to the limited number of Japanese professionals. This is a serious problem, which must be immediately addressed.

## Public Employees

The nurturing of professionals alone will not be enough to fully address the various complicated problems arising in contemporary economic society. Professionals are good at analyzing long-range issues but they cannot perfectly take a neutral stand in a dispute among different interests. This is why Japan must have groups of public-minded professionals who can consider matters with long-range interests in mind and serve the entire public.

The bureaucratic system has so far played the key part of such a role in Japanese society. But, as shown in the abolition of the parliamentary system of having bureaucrats attend Diet committee sessions to answer questions from Diet members, the weight of power is steadily shifting to politicians from bureaucrats in this country. Nobody would object to the views that politicians, not bureaucrats, must think of public interests as the supreme entity of the country amid such changes. But, there is indelible anxiety over the advisability of ultimately leaving everything up to politicians alone, because it is increasingly difficult to recruit capable and resourceful persons as politicians through democratic elections. In this respect, it would be worthwhile to calmly re-examine the value of the bureaucratic system as a national asset. I am not defending bureaucrats involved in a series of scandals. I am just re-examining the role played by bureaucracy as the nation's administrative system.

Only by calmly making such an examination, we would be able to bring out in full relief the public interests we pursue. I think that Japanese people are now afforded an excellent opportunity to reflect on where they should turn to for the source of public interests, and why. It is no good just bashing bureau-

crats or mechanically calling for 20% reductions in the number of public servants.

It is essential to prompt the flow of capable, highly public-minded personnel into public services. The most important thing in the reform of the civil service is to ensure the recruitment of capable personnel. But, the current situation hardly warrants optimism about the recruitment of capable personnel in the civil service. Given that an increasing number of elite bureaucrats are moving to Japanese or foreign private-sector companies, it can be said that scandals involving public officials since the late 1980s have had a tremendous impact on the bureaucratic system.

Elite bureaucrats are criticized by the media for their behavior, but it is undeniable that, although their ability is only at the undergraduate level, they are basically capable persons having professional knowledge necessary for the times and have been engaged in policy planning in various fields. Even though bureaucrats are capable as far as professional knowledge is concerned, they do not receive enough professional training after joining the civil service as their foreign counterparts do. In France, prospective elite bureaucrats study political science and administration at the Institut des études politiques de Paris (IEP), a university-level institution known as Science-po, and after that enter a postgraduate school called ENA (École nationale d'administration) which trains the bureaucratic elite. Japan has just started preparations for creating a postgraduate school for training bureaucrats. There are growing voices calling for a power shift from bureaucrats to politics. But politicians do not necessarily make superb judgments all the time on matters related to public interests. In a democratic system, politics tends to merely represent the accumulation of private interests or represents unembellished local interests.

Some argue that Japan finds itself hard-pressed to become a professionalism-oriented society because there are few capable professionals in the country. It is true that the Japanese system

of nurturing human resources at higher educational institutions for social science policy research lags behind that of other countries, not only the United States and the United Kingdom but also East Asian and Southeast Asian countries. We must be concerned about this point for the following reasons.

As I have already mentioned, global economic competition is not limited to markets of products and technology. As a characteristic of globalism, international competition is shifting to a "verbal battle." This battle between professionals has been globalized long before Japan became aware of its importance. Globalization and great competition in language is progressing much faster than expected among all professional people, including politicians, journalists, bureaucrats, academics, business people and engineers. The international standard of engineers, for example, is set by their debating ability. Japan lags far behind other countries in the field of international debate and this is Japan's most serious problem regarding globalization.

Even several East Asian countries, let alone Western countries, have already been training highly professional people in institutions of higher education, assembling them in an independent think tank and letting them make simulations of various scenarios of world affairs and analyzing them on the basis of accumulated data. These countries are strongly aware that it is very important, from the viewpoint of national policies, to carry out simulations and analysis of all possibilities of North Korea's political and economic changes or China's economic situations, among others. Japan is left behind other countries in this respect. In Japan's administrative system, there are not yet enough personnel who were trained in postgraduate schools.

In the market of economists, too, Japan is not yet ready to provide competent talent, though international organizations and research institutions in various foreign countries place high expectations on contributions by Japanese economists.

The same is true of journalism.

Japanese media organizations have no proper functions to educate journalists or allow them to study at postgraduate schools for a certain period. The level of the average Japanese journalist is more or less lower than that of some Western or East Asian counterparts. Japanese media organizations employ competent graduates of four-year universities or their equivalents, but have yet to develop educational and training systems for enhancing journalists' professionalism.

### Conclusion

In several fields, Japan is less committed than other industrialized countries to nurturing professional people. There are also qualitative problems in Japan's educational system from primary to higher education. Entrance examinations are mostly aimed at testing stereotyped knowledge. Such a system cannot be helped, considering the high costs involved in holding examinations. But educational officials should be more concerned about nurturing human resources equipped with capabilities important in global competition, such as power of expression, judgment, persuasiveness, negotiating power, debating power and the ability to think about problems which may have no correct answer. It is also necessary to incorporate in educational programs the curricula focusing on classic culture in order to develop the power of thinking tenaciously.

The fate of the Japanese economy in the 21<sup>st</sup> century is not destined like fatalism. It depends on our own efforts. We can foresee a brighter future by both preparing a good system and training individuals who are ready to take their place in it. JTI

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