

## Chapter 2

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### Prosperity and Dynamism

#### I. Prosperity through Dynamism

##### 1. From the twentieth to the twenty-first century

In the twentieth century, affluence was effectively set as a monolithic goal. Almost everyone moved in lockstep to achieve it, government measures were directed toward it, and business activities were often focused on it. This social culture underlay the dismantling of traditional society and the emergence of massive state power, the transformation and homogenization of the living environment due to technological development, and the birth of the so-called mass-production, mass-consumption society that characterized the twentieth century. The Japanese people experienced this in a quintessential way in the form of the “miraculous” economic growth of the second half of the century. Social systems, however, never progress in a linear fashion. Aside from anything else, linear progression leads to excess and drives social systems into an impasse.

At the end of the twentieth century, Japanese society appears to be dazed by the economic success of the second half of the century and its negative legacy, to have lost confidence, and to be overcome by bewilderment and anxiety. The organizations that were regarded as the leading lights of affluence now look like its destroyers. Naturally enough, when the happy harmony with social systems falls apart, people embark on their own soulful journeys in search of affluence.

For several years, there have been attempts to establish indicators of affluence, but without success. It is believed that this is not so much because there is a problem with those indicators as because people began to lose interest in the creation of such official indicators. It has become evident that affluence has diverse dimensions, so that it has become impossible to take as a starting point the idea of affluence as something that could be uniformly promoted. Moreover, the very pursuit of diversity of affluence came to be seen as proof of affluence.

This situation in and of itself is not especially praiseworthy as a social paradigm. If, in fact, diversity of affluence means the mass generation of people who withdraw from society and the diminution of human energy, we cannot disregard its social effects. The problem in setting goals for Japan in the twenty-first century is not diversity of affluence itself but the reduced human vitality often seen when there is a diminished sense of social belonging. If, in addition to making it impossible to set a single criterion of affluence and mobilize the populace, pursuit of diverse forms of affluence leads only to a pervasive apathy and sense of powerlessness, it will be extremely hard to delineate an outlook for twenty-First-century Japan.

The relationship between social systems and people always has two aspects, however. On one hand, when old social systems lose their force apathy and a sense of powerlessness result; on the other hand, a new vitality is unearthed and aroused when people are freed from the constraints of old social systems. At present, both are mixed together, and it is crucial to distinguish one from the other. It is not simply a matter of one group manifesting apathy and another demonstrating vitality; both often coexist in the same person. Twenty-First-century Japan must pin its hopes on the manifestation of a new human vitality. Such vitality will not only invigorate economic and industrial endeavors but also impart fresh energy to social relations as a whole, and this will lead to the creation and development of new social systems.

The question is whether we can put in place a framework that will encourage and enable the full and free play of such vitality. Simply refurbishing a time-worn framework will suppress this vitality and lead inexorably to apathy. The First requirement is the social vitality to change what needs to be changed. In the context of the issue of affluence, Japan's challenge at the beginning of the twenty-first century is to achieve diversity of affluence underpinned by human vitality, using to the full extent each region's special attributes and ingenuity—and to prevent hoarding of such human resources, instead making them the catalyst for transmitting to the next generation as fresh a social system as possible. In the process, it will be necessary to review the social rules and reconsider the social values that have prevailed so far. Only by returning thus to basics can we come up with new goals for Japan in the twenty-first century.

## 2. Diverse relations between organizations and individuals:

### The question of governance

Japanese society in the second half of the twentieth century has been regarded as egalitarian, but in the light of the realities, it is clear that this view has relied on the unquestioned assumption of a narrowly compartmentalized, segmented structure within which there are horizontally egalitarian structures. The bureaucracy has created a huge matrix of “consideration” and “care” adapted to these structures. Even business, supposedly the freest area, has not been as exempt as one might think. This is well demonstrated by the employment system. The classic postwar image of employment was lifetime employment (with the attendant expectation of seniority-based promotion) upon graduation from school or university. The egalitarian world thus created was based on a lifetime undertaking between the company and the individual as a totality.

We can see the complex networks of corporate society as organized into industrial associations or corporate groups centered on banks, with a bureaucratic system invested with wide-ranging discretionary and rule-making powers as the guardian of the public realm looming above. To a greater or lesser degree, such organizations as local public bodies and specialist organizations, nonprofit organizations, and universities helped uphold this huge bureaucracy-led system, or were regulated so as to fulfill that role, and doing so was regarded as their *raison d'être*.

In actuality, organizations and individuals interacted in diverse ways, but that diversity and the rules governing it were never defined; the system operated on the basis of a national consensus that “all's well that ends well” in the context of a fast-growing economy. However, the self-confidence that underpinned this system has disappeared. Meanwhile, the system's “you scratch my back and I'll scratch yours” nature and its lack of accountability have been exposed. The upshot is a serious crisis of confidence. Educational and other measures for breaking out of this impasse can be put forward. Most crucial, however, is to rethink relations between organizations and individuals and clarify the rules for different relationships. This is no easy task, but it is the only way to avoid the “you scratch my back and I'll scratch yours” syndrome and lack of accountability and make it possible to carry out bold activities with assurance.

Looking at the situation from another angle, we can say that because organizations have diverse roles and aims and, like it or not, we are obliged to interact with a variety of organizations, no particular relationship can be a total commitment. We all have to interact with the state (the central government) in some way. At the same time, we work for a company or some other organization and also relate to local government. Moreover, working for a company naturally involves the pursuit of objectives and agendas that differ from those involved in working for, say, a nonprofit organization. And the role expected of specialists and university faculties is certainly not that of wealth creation in any direct sense. In the twenty-first century, people will be affiliated with a number of different kinds of organizations throughout their lives and will enjoy opportunities to contribute to society in varied ways.

Society is not just a conglomeration of isolated individuals; it is formed by the competitive and cooperative relationships among organizations having diverse roles and objectives. And society as a whole can achieve strength and stability through those organizations properly fulfilling their roles and aims. Individual organizations' governance and the governance skills of the Japanese as a whole are the sum of those organizations. What we mean by governance is self-governing on the basis of a set of clear-cut rules and the principle of responsibility, not governing that is predicated on authoritarianism, whereby one set of actors naturally rules another set.

In considering this issue, we cannot ignore the historical background. From this viewpoint, today's ubiquitous protestation that public space is not the exclusive preserve of officialdom has a weighty meaning. It is true that alteration of the bureaucratic system is a major issue that cannot be avoided in formulating goals for twenty-first-century Japan and has been vigorously debated for several years in the context of administrative reform and decentralization. The problem, however, cannot be resolved simply by criticizing the present bureaucratic system. Although the excessive influence of officialdom is being condemned, there is still a strong mental climate of dependence on the bureaucracy. Therefore, rather than simply criticize the bureaucracy, we need to engage in constructive debate on who will handle the areas that have been the purview of the bureaucracy so far, and how. When all is said and done, the question of how we perceive the legacy of the bureaucratic system cannot be answered without rigorously examining the people's will and ability to govern themselves.

On the basis of this basic schema, the subcommittee decided to concentrate on three points. The first was to examine the relations between organizations and individuals concretely by elucidating the roles and governance of various kinds of organizations. We defined governance as that which governs the interaction of organizations and institutions on one hand and individuals (or groups thereof) on the other, interaction grounded in the principal-agent relationship. The basic elements of this kind of governance are clear-cut rules, disclosure of information, accountability, ex post facto evaluation, and third-party evaluation. Governance in this sense also includes systems of rule or administration equipped with these basic elements. Corporate governance is the most widely discussed form of organizational or institutional governance, but we also posed the question "Who takes the initiative in public affairs, and in what way?" and studied the issue of social governance after the bureaucracy-led system is demolished.

Second, we examined the issue of the human resources that lead and administer these varied systems of governance and the cultivation of those resources. Public enthusiasm cannot in and of itself resolve problems of governance. Diverse human resources are called for to address different organizations and issues. A variety of specialists, rather than so-called generalists, are required. For example, in that self-governing skills, including rule-management skills, are at issue, the importance of legal professions is bound to rise. In general, reviewing higher education as a means of developing and reeducating human resources in various fields is a major national task, the implication being that it is necessary to free ourselves from the traditional mind-set that sees the role of higher education as limited to providing potential employees (the mind-set focused on entrance examinations).

Third, on the basis of the above discussions, we reconsidered the traditional idea of fairness, because rethinking that concept of fairness, which is premised on a horizontally egalitarian, compartmentalized society, and encouraging social vitality are inextricably linked.

## II. Fostering Prosperity and Putting It to Work: Issues of Corporate Governance and Economic Dynamism

### 1. The corporations and corporate actors of the twenty-first century

In the decades following the end of World War II, Japan achieved astounding economic growth based on policies aimed at catching up with the West; as a result, the Japanese people, in general, came to

enjoy a considerable degree of economic affluence. It is fair to say that Japan achieved the status of one of the world's front-runners in terms of economic indicators. The force behind this growth was the lively activity of business corporations. During the 1990s, however, the Japanese economy experienced its worst recession of the postwar period. Not only did numerous businesses, including some major corporations, fail, leading to increased unemployment, but a series of business scandals also emerged. These developments diminished the international community's confidence in the Japanese model of corporate management, and now the search has begun for a new model.

Meanwhile, a pair of powerful external forces have compelled Japan's corporations to modify their activities in a major way. These are the information and financial services revolutions.

The advances in information technology since the 1980s have literally revolutionized the world of business. Within the corporation, the work that formerly occupied middle management and clerical staffers can now be carried out with greater speed and efficiency, and corporate organizational structures and chains of command are being streamlined to reflect these gains. These advances have also opened the way for greater freedom in working arrangements, including telecommuting, and have given rise to a flowering of new types of specialized creative professions; this is a major force for change in existing arrangements for work and compensation. And in terms of corporate strategy, the information revolution has the effect of sweeping away the national boundaries that have previously acted as walls separating markets. As a result, markets have suddenly taken on a global spread, and it has become possible even for small regionally based companies to do business with the world by equipping themselves with the requisite information technology. Furthermore, the information revolution is producing a major change in the concept of the corporation itself. Successful corporations are emerging in rapid succession from Fields of business that do not require any "bricks and mortar" (physical edifices). And an environment is taking shape in which it is easy for individuals to go into business even without capital provided only that they have specialized expertise and the ability to transmit attractive information. Under these conditions, competition among corporations is coming to involve a constant flow of new entrants, cutting across the traditional lines between industries.

In this way, the impact of the information revolution looks set to bring major changes in the corporate actors, the relationship between the corporation and the individual, and the nature of the corporation itself in the twenty-first century. In this context, the foremost priority for Japanese corporations is to be fully equipped with information technology and the potential to shift their thinking flexibly.

The second major external force for change is the Financial services revolution. Against the backdrop of a chronic surplus of domestic funds, Japan's Financial structure has experienced a transformation in the conditions under which it operates as the result of such developments as interest-rate liberalization, the deregulation of Financial operations, the development of new Financial products accompanying the advances in information technology, the expansion of capital markets, globalization, and the reform of the corporate accounting system from one centered on acquisition costs to one centered on current market values. This radical transformation of the Financial environment is having a major effect on businesses. In the past, Japanese corporations had the advantage of being able to act on the basis of long-range perspectives thanks to the main-bank system, under which they had long-term transactional relationships with their banks, including cross-shareholding and loans, along with the expectation of support in times of business difficulties. As a result of the shift by many major corporations from bank loans to use of the capital markets for fund-raising, however, their relationships with their banks have become weaker than before, and in the period to come the role played by banks as loyal long-term shareholders of their corporate clients is expected to decline substantially. Furthermore, the Japanese form of corporate governance centered on main-bank relationships has the defect of poor transparency. At a time of growing involvement by institutional shareholders and foreign investors, this lack of transparency has made it increasingly difficult for corporations to be evaluated properly, not just globally but within the domestic market as well. Of course, for the small and medium-sized enterprises that make up the vast majority of Japan's

corporations, a large portion of funds raised continues to come through the traditional form of Financial intermediation between deposits and loans conducted by banks and other institutions. But the radical shift in the Financial environment is also slowly changing the relationship between these smaller businesses and their banks; the age is shifting to one in which enterprises choose their banks and in which they can diversify their sources of funds. To make it possible for these new developments of the information and Financial services revolutions to bear full fruit throughout Japan, it is necessary to expand and improve the information infrastructure and new routes of Financial intermediation not only in the Tokyo area but also in the various regions.

The style of corporate management and the various related systems that enabled businesses to adapt in the period of rapid growth, during which uniformity and conformism were accepted, no longer match the needs of the new information society, which requires diversity and distinctiveness. This has made it difficult for corporations to find paths for further growth; moreover, it has caused a rapid weakening of their operational foundations as a whole. Meanwhile, the emergence of numerous corporate scandals has resulted in a lowering of confidence in the morals both of the corporations that form the nucleus of private-sector economic activity and of the administrative organs that support them.

Given this context, we suggest that there are two areas in which corporations should change: (1) through reconstruction of the relationship between corporations and the main corporate actors, in other words, the reconstruction of corporate governance systems, and (2) through reconstruction of the relationship between corporations and society, in other words, the reconsideration of corporations' social mission.

*Corporate governance* refers to the arrangement that governs corporate activity. In the case of joint-stock corporations, shareholders are the owners, but the actual management is entrusted to executives. A system is required that will check whether executives are acting in accord with the interests of the corporation, and thus of its shareholders. As noted above, in Japan's case main banks formed the core of the traditional corporate governance system. In a capitalist economy, corporate executives are expected to meet shareholders' expectations by delivering appropriate profits. In concrete terms, it is the mission of corporations to take advantage of global trends and deliver high-quality services, information, funds, and other products in a timely manner and at the lowest possible prices to consumers and also to open up new Fields of business activity through the development of new technologies. For today's contraction-minded Japanese corporations to recover their dynamism, the business world needs innovators ready to discard the old conformist tendencies and open up new frontiers.

The process of diligent improvement based on competition among innovative corporations serves as the mechanism for development of a healthy capitalist economy, but if this mechanism is to function, there must be entrepreneurs who will undertake new challenges and private-sector investors who will accept the high risks that inevitably accompany new ventures; there must also be a legal system that will allow those who fail to try again. For private-sector investors to accept fair risks in keeping with their expected returns, we need to revise our system of corporate governance, rebuilding the set of institutional frameworks governing the relationship between corporate executives and shareholders, establishing mechanisms for both internal and external oversight over management, and offering appropriate incentives to executives.

Of course, it is not only shareholders whose interests are closely tied to corporate activity. Corporations are supported by a multitude of people, including the customers who purchase the goods and services they provide, the creditors who acquire the bonds that they issue, the employees who choose them as their place of work, the residents of the communities in which they operate, their local and national governments, and the other corporations that sell them products; corporations also bear social responsibilities toward these numerous other stakeholders.

In considering the proper shape of the corporation in the twenty-first century, we are struck by the need both for corporations to carry out their fundamental responsibility of paying out appropriate

profits to the shareholders who own them and for them to recover public trust through a wide-ranging reconstruction of their relationships with their employees, their customers, community residents, and others with whom they are involved, both individuals and social and administrative organizations.

## 2. The relationship between the corporation and the individual

When lifetime employment was considered the norm, corporations had a family-like relationship with the individuals they employed; they dominated their employees, controlled their time, and expected them to commit themselves totally to their jobs. But the corporation of the twenty-first century, when permanence and lifetime employment can no longer be taken for granted, should stop being an entity that dominates individuals. We hope instead that corporations and individuals will build a new set of relations on equal terms with each other, meaning that they determine what they expect from each other and then enter into contracts that clarify their relationship. To build relationships of this sort, it will be necessary to create a social environment in which changing jobs is not a major handicap and people can move freely from one corporation to another, allowing both individuals and corporations to flexibly change their positions. This will bring about a fundamental change of the relationship between the corporation and the individual from one of control and organizational obedience to a contractual sort of relationship befitting individuals as citizens.

In the century ahead, corporations will cease being the all-encompassing entities that they have been for the lives of individuals in Japan; instead, they will return to their proper form as places where independent individuals are employed under contract for certain periods of time. The corporations that respect individuals will be the ones that succeed in hiring mobile, talented people and that will be able to draw out these individuals' capabilities and to display their collective prowess as organizations.

As a result of the information revolution, employment arrangements will become more flexible—particularly in terms of time commitments—through practices that focus on the tapping of specialized expertise, such as discretionary labor systems and telecommuting, which, while requiring the devotion of certain amounts of time to the job, will allow greater freedom in picking the actual hours of work. This will contribute to the formation of a working environment that is more comfortable for women and older people, who are expected to make up increasingly large shares of the labor force. The diversification of working arrangements will also force corporations to build information networks that take these various arrangements into account, a byproduct of which will be the flattening of corporate structures and the speeding up of decision making. In this way, twenty-first-century corporate activities emphasizing the individual should have positive effects both for the pursuit of profits and for employees' self-realization.

Changes such as these in the relations between the corporation and the individual are bound to cause major changes in labor-management relations and in the role of labor unions. For example, we can expect to see a shift from defined-benefit pensions to defined-contribution pensions based on individual responsibility, the latter being more suited to an age of employment mobility; from a seniority-based pay system that promises future rewards for present efforts to an ability-based system that compensates people in line with their current work; and from an evaluation arrangement that focuses on corporation-specific attributes to one that looks at more universal and marketable forms of know-how and specialized expertise. All these shifts carry with them a potential downside for corporations, inasmuch as they will tend to weaken the individual's sense of belonging to and identity with the corporation.

These trends, along with the diversification of individual values, can be expected to make it increasingly difficult to find roles for Japan's traditional enterprise-by-enterprise labor unions. Unions will need to look for new roles for themselves in the context of the new employment environment; they will likely have to transform themselves into more flexible organizations, aggregations of individuals that speak on behalf of a variety of workers and work to promote harmony between communities and

corporate activities, thereby encouraging individuals to join up and finding ways of contributing to society in a manner similar to that of nonprofit organizations.

The economic and social systems of this coming age are not something for which the government can forcibly set the direction. Rather, these systems will take form independently through a process of trial and error by individuals, as consumers and workers, and corporations, as producers and employers. In this sort of society, neither individuals nor corporations will depend on the government. The government will merely set the general rules; responsible, creative individuals and corporations will be the main actors. As a result, it will be possible for individuals to set up entrepreneurial ventures and actively pursue innovations on the basis of their own ambitious dreams. It is important to modify our economic systems and individual mind-sets so as to make Japan a society in which people who boldly undertake challenges but fail can have the chance to try again. The role of the state will not be one of coordinating the competing interests of private-sector corporations and continuing to impose regulations to protect existing businesses but rather one of deregulating and actively giving businesses room for diversity, thereby moving in the direction of forming a society with great tolerance and flexibility, while at the same time creating a framework that will facilitate individual and corporate behavior considered to be good for society. The role that the government has to play in this context through the tax system is extremely great.

### 3. New corporate missions

The First mission of a corporation is to act properly in economic terms. Corporations enrich people's lives through the goods and services that they provide, they distribute the profits gained from their activities to those who have invested in them, they provide employment opportunities for individual workers, and through their tax and other payments they contribute to the overall stability of the nation. Through their activities in the pursuit of profits, in other words, through the process of creating wealth and distributing it, corporations invigorate society.

It will also be necessary to achieve a general social recognition of the fact that the activities of private-sector corporations can contribute to the public interest directly through the innovative ideas and approaches that arise in the course of pursuing profits, that is, in the course of creating wealth. For example, the mobile telephone and parcel delivery networks developed from innovative thinking by businesses now form important elements of Japan's social infrastructure. In that respect, for corporations to offer greater convenience to consumers, they should recognize it as their role to actively undertake various operations that are currently being carried out by the public sector. Meanwhile, for society as a whole, there is a need to create an environment in which capital markets favorably evaluate success not just in manufacturing but also in the generation of new approaches and ideas; there also needs to be a greater recognition than before of the contributions to the public interest made by corporate activities. Terms such as *pursuit of profits* and *wealth creation* should not be taken as meaning selfishness. The pursuit of profits by corporations not only enriches the corporations themselves but also in various ways the entire society of which they are members; in that sense, the corporate philosophy requires a proper balance between self-interest and altruism.

A further requirement is that corporations fulfill their social responsibility to disclose information about their activities to the market and to users and explain themselves. What is especially needed for the development of Japanese corporations, and thus of the Japanese economy, is transparency in corporate activities. Improved transparency means accounting for one's actions and making responsibilities clear; it relates directly both to corporate governance and to the securing of public trust, and it is an essential requirement for the development of a mature society in which people and businesses take full responsibility for their own actions. Japan's private-sector corporations, which are now actors on the global stage, should be directly involved in the drawing up of rules and active participants in the formation of global standards and of markets that fit these standards, thereby

winning international trust.

A second mission for corporations that have succeeded in creating wealth is to consider how they can put it to work for the sake of society. Particularly in the twenty-first century, when corporations will lead the conduct of economic activity, they will be expected not only to enrich society indirectly by continuing to create wealth and to distribute it appropriately to those involved but also to render some of the fruits of their wealth creation directly to society. This will mean an additional direct burden for corporate shareholders. Because profits belong first to shareholders, it will be necessary to persuade them that making social contributions also benefits the corporation itself. Corporations that actively take on this additional mission of contributing to society and thereby win public respect will find that this enhances customer satisfaction and acts as a plus for their corporate activities. Also, distinctive forms of social contribution that are tied to the corporation's image can serve as a new way of drawing employees together. Corporations should accept that such actions not only allow them to fulfill their social responsibility but, from a long-term perspective, also enhance the satisfaction of the many people with whom they are involved and can thus lead to the further creation of wealth. One form that these activities could take would be support for the activities of local nonprofit organizations and contributions toward cultural programs. It is essential to revise the tax system for donations in order to promote corporate social contributions of this sort. A major issue for us now is to draw on such activities so as to build a twenty-first-century Japanese society in which the market economy and social values operate not in conflict but in concert.

### III. Involvement in Public Affairs: Vitality in Support of Social Governance

#### 1. From governing to governance

During the twentieth century, the state (meaning the central government) wielded great power, and democratic politics took place on a national stage, acting as a reinforcing supplement to state power. In the latter part of the century, this tendency changed, and against the backdrop of shifts in the international situation and the development of information technology, the role of the state came under broad reconsideration from the perspective of its interaction with society. What has been most prominent in this context is the review of the relationship between the state and the market, but major changes have also been taking place in the relationship between the state and social actors. The trend away from rule by the state toward self-rule based on cooperation and competition among various organizations is the most important change of the century. This trend represents a major challenge for individuals and organizations. Within Japan, this issue has been discussed in the form of the argument that public space is not the exclusive preserve of officialdom. As criticism of the bureaucracy's unilateral decision-making posture has increased, laws governing administrative procedures and the disclosure of official information have been enacted, and transparency in government has become a major issue; at the same time, there has been ongoing consideration of moves to limit government authority, typically through deregulation, and to shift power from the center to the regions. As a result of such developments, the system of rule by officialdom, which has been in place in Japan since the Meiji era (1868–1912), no longer has its former hold on society.

Although the system of rule by officialdom has been shaken, how far have we progressed toward equipping ourselves with an arrangement to replace it? Corporations are making efforts toward establishing their own organizational foundations through the pursuit of proper corporate governance, but to achieve stability for society we need to develop arrangements for self-rule with a broader scope. We cannot hope for a stable society if the end of rule by officialdom is followed by a situation in which disorderly and violent self-assertion—at worst, outright violence—runs rampant. So as we revise the system of rule by officialdom, we also need to make preparations for proper social governance. In

addition, we need to awaken the interest of organizations and of the people who sustain them in participating and being involved in public affairs. The new style of governance means an arrangement that allows the emergence of multidimensional relationships between the state and society. Governance is not to be the exclusive preserve of officialdom but an arrangement in which diverse actors participate responsibly and share responsibility. In English, there are many terms beginning with *co-* that define the new style of governance, such as *co-steering*, *co-managing*, *co-producing*, *co-allocating*, and *co-guidance*. Along with the term *common*, these key terms refer to the shared, or joint, nature of governance.

Public space is not something to be supported exclusively by the official machinery designed to realize the public interest; people and groups outside officialdom can also take part in supporting it if they have the aspiration, readiness, and capability to do so. Until now in Japan, however, there has been a tendency for officialdom to wield power and for the people to be those over whom power is wielded, with public space being the exclusive preserve of officialdom. The Japanese people long accepted the idea of the authorities as their superiors and thought of themselves as dependent on officialdom. But now we are in an age in which officialdom and the people must cooperate and in a sense vie with each other in the conduct of public affairs. People should not participate because officialdom tells them it is all right to do so; they should enjoy conditions permitting their free participation. In this way, we must abandon the old structure of division between officialdom and the people, clearly establishing the people's ability to be involved in public affairs and building an environment in which they will do so with pride.

## 2. Actors helping to support social governance

As society becomes more complex and more advanced, and as individuals' specialized talents grow in importance, the weight of groups of professionals, such as physicians, certified public accountants, lawyers, and scientists, increases. Professional groups, each with its own exclusive area of advanced specialized knowledge required by society, tend to be closed and mutually exclusive, but we hope that they will put their specialized knowledge and technology to work in a way that will aid the general public. For this purpose, it will be necessary, among other things, for them to formulate and publish autonomous ethical standards, to disclose information about their services and activities, to introduce systems of appraisal by outsiders, and to correct excessively cozy ties to regulatory agencies.

Though groups and organizations of various types exist, including "public-interest corporations" (incorporated associations, incorporated foundations) established under Article 34 of the Civil Code, nonprofit organizations newly incorporated under the March 1998 Law to Promote Specified Nonprofit Activities, and voluntary groups at the grass-roots level, not all of them can take part in helping to support the public realm. But there is a need to recognize that groups with the aspiration to be involved in public affairs can serve as actors with perspectives and capabilities that officialdom lacks and to actively create the proper conditions for them to do so. Nonprofit organizations have finally begun to be seen as actors that can get involved in the conduct of public affairs, but they still have weak underpinnings in terms of funds and human resources. Regardless of how much dedication and enthusiasm they may have, groups that do not have a certain level of stable funding cannot run their organizations or secure personnel. The donations that sustain the activities of nonprofit organizations should be recognized as part of the cost of public space, alongside the taxes that sustain overall government activities. Donations made voluntarily to sustain the activities of nonprofit organizations are in fact funds for the realization of the public interest, just as much as the taxes collected on a mandatory basis by officialdom. Preferential tax treatment should therefore be enacted for such donations and measures taken to ensure that this treatment is used broadly and fairly. In addition, the present arrangement does not allow public-interest corporations to be established unless the competent authorities grant their approval (Article 34, Civil Code); the idea that it is not permitted

to help support the public realm without the permission of officialdom is one that should be changed, and revision of Article 34 of the Civil Code should be considered.

One way for individuals to participate in public affairs is for them to take part as unpaid councilors, trustees, or the like for organizations in their own Fields of interest, such as museums, hospitals, or schools. To deal with the situation of people being interested in participating but being unable to do so, we need to remove the obstacles through steps such as the provision of leave for volunteer activities.

It is also possible for older organizations and groups to shift their focus and help support social governance in this way; it is not an option limited to newer organizations. Labor unions are in the process of feeling their way in this direction, and what now calls for greater attention is the regions and regional governments. Thanks to the dramatic advances in information technology, information and capital \_y about over the Internet and easily cross national boundaries, but along with the intensification of activities in cyberspace and the progress of globalization, the other side of the coin is the increased added value of the places where people actually live as their “space” and “home territory.” Not to be swallowed up by the telecommunications technology that \_ashes across time and space but rather to use it and at the same time to experience the “humanness” of feeling close to nature and of sensing one’s life as part of an eternal stream—this is the realization of the new affluence.

Particularly with Japan’s declining birthrate and aging population, the importance of local communities is growing. To improve the efficiency and effectiveness of such services as health care, public health, and welfare, it is essential for the user’s perspective to be reflected. Nursery schools, kindergartens, elementary schools, and middle schools are educational institutions at the core of the local community. If the necessary social infrastructure (both physical, or “hard,” and systemic, or “soft”) is established and safety and comfort are secured, knowledge-transmitting people will assemble there, making these places magnets for productive activity.

The aim of decentralization is to reconstruct public space so as to extend it to people’s immediate environs. The comprehensive law on the promotion of decentralization that was passed by the 145th session of the National Diet in July 1999 has created a legal framework, but a number of hurdles must still be overcome in order for local administrative bodies to achieve truly autonomous status. Local administrative bodies, too, must be prepared to change. First, they must be allowed to exercise their own responsibility with respect to taxes and spending through the correction of the imbalance between the center and the regions in terms of revenue sources and the establishment of discretionary authority at the regional level. Regional governments, just like the national government, are mechanisms for the achievement of the public purpose, and the establishment of a rational mind-set vis-à-vis arrangements for taxing and spending is of decisive importance for the future of the democratic system. A second hurdle is the building of vibrant relationships with residents. In practice, however, as shown by low voter turnouts, the base of local politics is weakening. In this context, it will become increasingly necessary to have cooperative relationships involving local administrative bodies and residents as equal actors in such areas as working together to implement the services required by an aged population.

### 3. Meeting the conditions for participation

Opportunities must be secured for participation in the activities of the public realm by actors who take pride in and responsibility for helping support this realm. The activities of the public realm can be classified in four dimensions: (1) policy formation, (2) decision making, (3) implementation, and (4) evaluation. Participatory channels must be provided within each of these dimensions. Different actors will, depending on their nature, have different ideas as to which stage they emphasize for participation, but it is important that they all participate in a way that lets them take advantage of their respective characteristics.

To make participation effective and meaningful, it is essential, above all, to provide the information to enable people to reach decisions. Disclosure means the provision of materials for people to make judgments on the shape of the activities of the public realm; these materials should be shared by the groups and organizations that help support the public realm. It is then ultimately up to the various actors to apply this information in a constructive direction.

The new style of governance is one wherein the state and society have a multidimensional relationship. Diverse actors will participate in the public realm and act therein. It is necessary to encourage participation by making systems open and processes transparent; irresponsible participation, however, is liable to produce systemic paralysis. Being interested in participating and recognizing that participation is accompanied by responsibility are fundamental requirements for the actors who would help support the public realm, but to produce a large crop of such actors, we must have an environment that allows people to take pride in such involvement and that extends a certain level of respect toward this activity.

The key to whether it will be possible for the organizations and actors that will help support this new style of governance to emerge lies in the answers to the questions of (1) whether groups and organizations accustomed to secure positions and other benefits from officialdom will be able to become independent from officialdom and (2) how groups and organizations previously excluded from the officialdom-centered system can participate in and help support the public realm. To what extent will it be possible for people to free themselves from the tendency to equate participation with stubborn insistence on one's own position? "Participation with responsibility" is inseparably linked to the requirement of social accountability among the actors.

What determines the shape of involvement by such actors is the relationship between individuals and organizations—but what ultimately regulates this relationship is the posture of the individual. For example, in a situation where individuals are completely swallowed up by the organization, a tendency toward compartmentalized exclusivism is promoted, and individuals cannot have the pride and responsibility of being involved in public affairs. Remaking the public space and empowering the individual are two sides of the same coin, and to achieve these it is necessary for individuals to be able to choose the degree of their involvement with the groups to which they belong, not to simply entrust themselves to their groups. It will also be necessary for people to belong to more than one group. This will mean differing degrees of involvement depending on the group, and social relationships will thus become multilayered and diversified.

This will sweep away compartmentalized exclusivism and create a society that offers multiple possibilities for free entry and departure. A system will emerge that provides flexibility, allowing members freely to choose their relationships with the groups they belong to and to move among multiple groups, being neither constrained nor isolated. This is the sort of social environment that will serve as the foundation for a new style of social governance.

Social vitality involving participation in public affairs arises out of dedicated and enthusiastic action by people operating not under compulsion but through their own choice. To become involved successfully, they must have knowledge and information to serve as the basis for making judgments, the skills and methods to do the actual work, pride in helping support the public realm, the breadth and depth of vision to take in the entire picture, and a sensitivity that never dulls; to integrate, these people will need both dedication and enthusiasm.

To help support the public realm through responsible participation, people will need to educate and develop themselves considerably. And to give people the knowledge and cultivation to serve as the basis for their choices and judgments, it will be necessary to improve the opportunities for and quality of education nationwide. Education has a major role to play in implanting the concept of public space in society and in developing people who will become involved in public affairs. In addition, it is essential to increase mobility among the Fields of politics, public administration, academe, and business, broadening the range of opportunities for people to put their talents to work, so as to increase the vitality of society as a whole.

What is required for the complex activities of people participating and helping support the public realm is the rule of law. Whereas the traditional concept of rule in Japan, expressed by the term *tochi*, is premised on vertical social relationships that lean toward administrative decision making and the discretionary exercise of authority, the new concept of governance, for which we have borrowed the English term, is premised on relationships that are more horizontal. To solve problems and come up with answers while working on the premise of horizontal relationships requires more complex procedures and the exercise of ingenuity. What is indispensable in this context is the thorough application of the principle of the rule of law; the legal professions involved in this work can be expected to play an incomparably greater social role than before. It will be necessary to recognize the special role that the legal professions play, not only to enhance the dispute-settlement abilities of the judicial system but also to establish rules for the activities involved in social governance.

#### IV. The Role of the Central Government and the People: Governance for the Twenty-First Century

##### 1. Away from dependence

In Japan, the term *kokka*, or *state*, is used, broadly speaking, in two senses. The First sense is that of the state as a “big community,” which one reaches by starting with the individual and gradually expanding the range of the community until it covers the entire nation. The second sense is that of the state as an apparatus for the achievement of the public purpose; in this sense, it corresponds to the central government. The state in the second sense is no more than a part of the state in the First sense, an apparatus that performs some of the functions therein.

As discussed in the previous section, the central government is no longer in a position to monopolize public space. In that sense, we have reached the end of the age in which the above two senses of the term *state* can be thoughtlessly conflated, with the central government exercising massive, monopolistic authority. Of course, the central government continues to play an important role in international relations, but domestically the fundamental theme for the period ahead involves the proper relationship between the empowered individual and the central government (between which public space is to be found), along with the question of whether the central government is fully playing its role as an apparatus for the achievement of the public purpose. It is therefore not possible to avoid the task of escaping from the mind-set of excessive dependence on the central government, an attitude analogous to the dependence of children on their parents.

To truly realize a situation in which the central government will function as an apparatus for the achievement of the public purpose, and to heighten the interest of the public in the policy-making process, it will be necessary to achieve a fundamental transformation in attitudes toward taxes in particular. The essential significance of an apparatus for the achievement of the public purpose lies ultimately in how taxes are collected from the public and how they are used; the attitudes of the public concerning the arrangement and use of taxes form the core of the democratic system. To put it another way, taxes exist as a tool for the achievement of the public purpose based on a certain consensus, or as a means of allowing people to directly receive welfare and other services in return; it is ultimately up to the people to decide how taxes are to be collected, how their uses are to be decided, and how to check that they have in fact been used appropriately. In that sense, democratic politics can be seen as a system of collective self-responsibility mediated through taxes. It is therefore necessary both to reform the public mind-set that regards taxes as money that is taken away before one realizes it and, once taken away, is totally beyond one’s knowledge, and at the same time to carry out the required reforms in the institutional background that has fostered this sort of public apathy toward taxes. These reforms will include such areas as the withholding and return-filing systems and strengthening of disclosure and

accountability with respect to the process of deciding how to use tax revenues and the subsequent monitoring of their actual use.

Frank debate about the fairness of the tax system is also of extreme importance. For example, we should bring up such contentious issues as the merits of lowering the minimum level of taxable income and making income tax rates less steeply graduated, with a view to spreading the public burden more broadly, and the expansion of tax breaks for donations, with a view to expanding the range of choices for the conduct of public affairs.

## 2. The roles of the central government

Based on the above understanding of the state as an apparatus for the achievement of the public purpose, we can identify the roles, or functions, of the central government in domestic affairs as falling broadly into three areas.

The First area is that of activities aimed at formulating clear legal rules and assuring strict compliance therewith. As people's needs diversify and the barriers of national borders become lower, it becomes impractical to rely on tacit social consensus; the fundamental settlement of all disputes should be conducted by law. The securing of systems of legislation and justice (including quasi-judicial institutions) adequate to cope with this shift to reliance on the law is an essential element for the maintenance of trust in the central government. We hope that increased policy-making initiatives by elected politicians and reform of the judicial system will produce ample results in connection with this role of the government.

Second is the function of broadly supplementing the workings of the market and achieving fairness. The market is by no means almighty, and because it is fundamentally based on the pursuit of individual interests, its purpose is not directly to achieve the public purpose; for this reason, there is a need for the central government to be involved in various ways. This is precisely the role of the state as an apparatus for the achievement of the public purpose.

Third, the central government has the role of responding promptly to and finding solutions for major disasters, accidents, and other crises threatening public safety. To fully carry out the functions of crisis management will continue to be one of the reasons for the existence of the central government.

The role of the government in supplementing the market is one of taking measures to deal with "market failures," and it includes the provision of public goods (goods and services that benefit the countless many and therefore cannot be provided by the market) and the maintenance of competition through antimonopoly policy. It also includes the implementation of bold measures in support of science and technology, particularly basic research, in fields that are expected to become the leading industries of the twenty-first century, such as the life sciences.

The market is good at securing efficiency, but there is no guarantee that it will provide fairness (or equality). So the central government has an important role to play in taking various measures to achieve fairness. In practical terms, these measures will consist largely of income redistribution; they will naturally involve the tax system, but in the coming age of falling birthrates and an aging population, particular significance will rest in the systems of social security, including health care, pensions, and welfare. These measures to achieve fairness will also have the significance of providing a safety net that will allow individuals to conduct their own affairs freely, as well as providing a "national minimum" throughout the country. By contrast, regulation of economic activities and direct intervention by the government can be expected to be conducted only on an exceptional basis.

In connection with the second role above, when thinking about the achievement of fairness, a major theme is the consideration of what we consider fair and what the standard for fairness is. The meaning of fairness or equality can be considered in terms of either equality of opportunity or equality of outcomes, and ultimately it involves each individual's sense of values, so this is not something for which we can count on finding a single absolutely "correct" answer. But it is important at least to

achieve a situation in which each individual is able to participate in economic and social activities under uniform conditions—to begin the race, so to speak, from the same starting line. So it is important for us to check whether this sort of equality of opportunity is assured in contemporary Japanese society and to implement measures to fully achieve it.

### 3. Revising the policy-making process: Establishing accountability

Policies cannot exist without a base of fiscal revenues to support them. The central government must take responsibility for the shape of the fiscal system even before deciding on various policies, but the twenty-first century requires First the reform of a variety of existing systems. This covers a broad range, including the setting of rules to control fiscal deficits, the introduction and publication of a balance sheet within the system of public accounting, feedback into budgeting from policy evaluation, the elimination of the negative features of single-year budgeting, and the determination of the proper shape of the fiscal investment and loan program, along with the issue of what to do about the postal savings system that has been this program's major source of funding. These are all matters that have been delayed under the old bureaucracy-led arrangement, and as we shift to a system of policy making based on leadership by politicians, these are the issues where we need to see results First.

The policy-making process includes two main functions: (1) planning, making proposals, and conducting research and (2) reconciling conflicting interests. The First function involves planning policies to achieve certain public objectives, considering what legislation and budget provisions will be required to implement them, and conducting the research on factual and other matters required as a base for such planning. The second function involves working to turn the proposals into actual systems or programs by carrying out the necessary reconciliation among interested parties and other related actors and building an agreement among them. In Japan, since the end of World War II, the ministries and agencies of the central government have played the main role in carrying out both these functions. Bureaucratic organs have effectively directed the process of drafting most legislative bills (the First function), and they have also reconciled conflicting interests and built consensus (the second function), relying on their everyday contacts with industry associations and their convening of councils of various sorts. This bureaucracy-led approach must be fundamentally revised.

In concrete terms, what is most important is First to strengthen the policy-proposing capabilities of the legislative branch and of the political parties. The legislature and parties will have a key role to play in dealing with policy issues in the period ahead, inasmuch as policy will increasingly concern issues such as social security, which involve choices among values (such as what is to be considered fair). Consequently, it will be necessary to achieve a radical strengthening of the policy planning, drafting, and research functions of the legislature and parties (alongside their functions in reconciling conflicting interests); this means sharply increasing both the quality and the numbers of the policy staff working for legislators, dramatically enlarging the research organs attached to the Diet, enhancing the “think tank” functions of political parties, and otherwise moving forward on various fronts to establish the necessary infrastructure of human resources for policy making. It will also include a large increase in the number of political appointees (serving on the staff of the cabinet or of government ministers) and the introduction of internship systems within these various staffs.

Even if this sort of infrastructure is put in place to support the policy-making initiatives of elected politicians, an important matter will still need to be tackled. We refer to one of the problems of democratic politics, namely, its tendency to focus on immediate considerations and to postpone dealing with long-range policy concerns. A number of specific issues need to be considered: For example, under the arrangement we now have, which involves frequent shuffling of cabinets and ministerial assignments, is it possible to tackle these longer-term matters? What sort of arrangement should we have for this purpose? It will also be necessary to deal with public fears that the shift to policy leadership by politicians will exacerbate the problem of political pork-barreling by adopting measures

to prevent this from happening.

Second, it is also necessary in this context to expand the roles of institutions such as universities and private-sector think tanks. Until now, the Japanese academic world has tended to focus on theoretical research and to have little orientation toward policy studies. In the mature society of the period ahead, in which social phenomena and issues to be dealt with will become extraordinarily complex, policy studies at institutions such as universities will be extremely important. We should therefore expand public support for such studies by researchers at universities and elsewhere, and we should also institutionalize a system of constant exchanges of personnel between universities and private-sector think tanks on one hand and government organs (including the above-mentioned staffs of the legislative branch) on the other. This is something that will also tie in with a review of the present career patterns of civil servants, which are predicated on lifetime employment.

Third, while there is a need for fundamental reform of the bureaucracy-led systems of the policy-making process, the central government must also increase the transparency of its activities for the sake of the public as users of government services. It is particularly necessary to achieve greater transparency in the rules and procedures for formulating public policy, including decisions about public works. Furthermore, the strengthening of accountability, through the active provision of relevant information for decision making by the public and through progress with disclosure in general, will continue to be a major issue.

It will be necessary to give careful consideration to the question of how to reflect people's voices in the policy-making process. In Britain, for example, a consultation process exists whereby the government First drafts a "green paper" containing proposed policies for consideration, receives comments from the people at large, and takes these into consideration in putting together its final concrete policy proposals in a "white paper." There is also a need to establish a fair arrangement for evaluation of administrative operations (including external evaluation) as part of the process of establishing accountability.

Public policy is important to reform the policy-making process and should not be monopolized by officialdom. Policy studies are also important as a source of factual knowledge and theoretical grounding for public-interest policy. But public attitudes are a major determinant of the direction of public policy. The general public needs to demonstrate determination to be involved in public affairs. This means First getting involved in politics through voting rather than just criticizing the existing systems. We also hope that the public will display an active attitude with respect to issues such as the introduction of juries and lay judges. Only with broad interest on the part of the general public can we achieve a constructive direction, with a variety of individuals and groups actively making proposals and recommendations concerning the sort of public-policy choices they consider appropriate. Discussions of this sort will also open up new prospects for systemic reforms and visions for the future. A society with participation in public policy by a broad range of actors, accompanied by responsibility, is the ideal on which we should base our thinking concerning the building of a system of governance for the twenty-first century.

## V. Conclusion: Development of Specialized Human Resources and a New Concept of Fairness

### 1. Mobility of human resources and a vigorous society

When we think in terms of richness through vitality, we see that the key is proactive human resources that engage in activities while distancing themselves from past systems. This conjures up quite a different image from the traditional one of people working for the sake of the organization, spending their entire adult life within one organization. The image typical of postwar Japanese society—people progressing from university (or school) to a company as lifetime employees—is indivisible from a

single-stream social life premised on social compartmentalization. Actual Japanese society was not that monolithic, but that this was perceived as the model is illustrated vividly by the obsessive interest in entrance examinations to universities (or schools) as the major gateway to company employment. Interest focused on admission to and graduation from a particular university (or school), not the skills and knowledge acquired there. After graduation, the most important virtues were one's sense of belonging and loyalty to an organization. In this compartmentalized, all-embracing system, individuals' specialized skills were seldom questioned, nor was there adequate scope for those in authority to do so.

Various surveys reveal that both sides desire change in this kind of relationship between organizations and individuals. Organizations now want a more fluid and flexible structure, whereas individuals have a strong interest in cultivation and recognition of specialized skills. In addition, the economic environment that enabled a smooth transition from school to company employment is disappearing. This signals that in the twenty-first century there will be a considerable shift from single-stream, compartmentalized relations between organizations and individuals to multistream, cross-sectoral relations. It testifies that it is organizations' skillful utilization of individuals' skills that invigorates society and that the ability to discern individuals' skills is becoming essential, along with individuals' enhancement of their own skills.

It is now generally accepted the world over that the quality of higher education is a major determinant of nations' fortunes. The problem with Japan's higher education is that, contenting itself with functioning chiefly as a provider of potential employees, it has neglected other areas of human-resource development. Society, too, has shown almost no interest in university graduates' skills, focusing solely on vying for the employment material churned out. This phenomenon has been especially noticeable in the humanities and social sciences. Now, however, institutions of higher education are becoming important as organizations that contribute to the cultivation of specialized human resources, thereby indirectly assisting the social mobility of human resources. There is a great deal of talk about cooperation between industry and academe in Japan, but true cooperation is not simply a matter of joint research in the context of particular projects but means, above all, creating systems that make the social mobility of human resources possible.

Specialized skills are closely linked to taking the lead in governance in specific fields. This means having the ability to deal soundly with problems in a particular field, armed with knowledge of the relevant rules. Of course, there will be fierce rivalry among those possessing the same specialized skills, which will separate the sheep from the goats. In any case, this will be a world vastly different from the compartmentalized one premised on the single-stream, all-embracing type of organization; it will be a world premised on a marketplace for specialized skills. In addition, it is anticipated that heightened competition and tension among the possessors of various specialized skills will lead to rethinking things that have been left vague. As a result, the limits of the ossified structure of traditional society will become clear, and society as a whole will gradually change.

Energizing society as a whole, however, will call for not only possessors of narrow specialized skills but also human resources with a greater sense of mission, incorporating the perspectives of "building affluence and putting it to work" and "participating in and helping support the public realm." Such human resources will be grounded in a mind-set free of the constraints of compartmentalized structures and equipped with the intellectual and spiritual energy to rethink realities in a cross-sectoral manner. Though such human resources are not readily created, it would behoove us to reflect on the fact that traditional single-stream, compartmentalized organizations have had little success in this regard. At least, there is no doubt that we must put in place an environment nationwide that encourages freewheeling thinking and self-cultivation on the part of people endowed with passion and a sense of mission. Here, too, we need to debate how useful institutions of higher education are. From this viewpoint, reviewing the role of institutions of higher education and striving to use them effectively will be extremely important challenges for twenty-first-century Japan.

## 2. A new concept of fairness

The twentieth century was the century of democracy and the century in which the principle of respect for human rights was implanted in human history. The next century must build on these achievements. We must continue to address the tasks of achieving a “national minimum” and ensuring and enhancing the social safety net.

Societies in which the principle of respect for human rights is firmly established are dynamic; their people are imbued with initiative and unafraid of challenges. If, however, respect for rights and benefits is just perceived passively, the result is a society preoccupied with maintaining the status quo, and the ultimate outcome could be a society devoid of dynamism and clinging to horizontal egalitarianism, one that finds it hard to accord due recognition to individual excellence. Present-day Japanese society is not necessarily immune to these ills. What is required is a populace that is prepared in all circumstances to link the principle of respect for human rights to respect for a dynamic society and vibrant individuality.

As we will understand if we consider the great challenge of a rapidly aging society, twenty-first-century Japan must meet a number of difficult challenges. Basically, this means that everyone needs to exercise his or her abilities more than ever and raise the energy level of society as a whole. It follows that we must value those who accurately assess challenges that will bring about social vitality and rise to meet these challenges with passion and a sense of mission. There is no doubt that this approach will clash violently with the frameworks of compartmentalization and horizontal egalitarianism nurtured in the twentieth century. Indeed, that marks the great divide between twentieth-century and twenty-first-century Japan.

This background gives rise to the major issue of reconsidering the concept of fairness. Of course, doing so will require tackling the negativity toward cross-sectoral, reforming efforts that springs from the close identification of the concept of fairness with compartmentalized, horizontally egalitarian structures. According due honor and respect to those who meet pioneering challenges that will bring greater vitality to society and who do so with passion and a sense of mission, whether in economic or social areas, befits a new concept of fairness. Those who build affluence and put it to work, those who participate in and help support the public realm, should be accorded social recognition along with those who make worthwhile contributions in the Fields of central government and politics.

Goals for twenty-first-century Japan can become a reality only if people forge a new concept of fairness. That endeavor will power the social structure and generate social vitality. To expect to revitalize society without changing people’s thinking at all is to hope for a miracle. To present just one concrete issue for debate, how should people view the present system of official decorations, a public expression of Japanese society’s sense of fairness? Is the system functioning in such a way as to generate social vitality? Or is it not, rather, more conspicuous as a remnant of bureaucratic rule, impeding the mobility of human resources and retarding the generational shift? If the latter is the case, we must have the courage and decisiveness to review the way the system ranks people.