

Research Report

Toward a Good Society...Making People Feel Active, Safe and Secured: A Welfare State with a System of Efficient Economic Management

Edited by Sei Kuribayashi and RENGO-RIALS

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A research project was organized by the Institute as a “millennium program” for the 21st century in October 2000. The objective of the project, which was headed by the Director General, was to reconsider what a good society is for the Japanese people, in particular workers in the 21st century, and to clarify the values and principles underlying and underpinning the good society. For market fundamentalism has prevailed over comprehensive welfare state in most parts of the world since the collapse of the Berlin Wall and people in Japan seemed to lose confidence in the direction in which the Japanese society will go in the future in the 1990s after the burst of the economic bubble.

RENGO-RIALS has conducted a series of researches and studies to pursue the theme on "a welfare state with a system of efficient economic management" since the founding of the Institute. The main task of this project was to review them and to reformulate the basic values and principles on which a good society should be built.

Part I provides a general outline. Chapter 1 discusses the roles of society, economy, and government in the welfare state with a system of efficient economic management. Strategic issues in realizing such economy and society are discussed in Chapter 2. Chapter 3 provides statistical evidence concerning the background behind the historical trends and the current situations of the postwar Japanese economy and society.

Part II deals with individual issues.

[The objectives of this report and its fundamental viewpoints]

The outlook for the Japanese economy was quite grim in March 2001, only a few months after the start of the 21st century. As evidently shown by declines in consumer prices for two consecutive years, the Japanese economy has been in deflation - something that has happened once in a long while in history. Meanwhile financial unrest, which had seemed to be under control, has worsened again following a drop in stock prices. In addition, the U.S. economy, which had been booming for several years, seems to have entered a phase of recession accompanied by a decline in stock prices. There is growing concern that the unemployment rate may exceed 5%, while firms' plans for investment, which helped to spur growth in 2000, continues to be revised downward.

The fiscal stimuli, however, cannot be expected to play a major role in solving such problems due to the burden of cumulative fiscal deficits that are in excess of 600 trillion yen (more than the annual GDP). Additionally, under-consumption caused by increased anxiety over worsening employment and living conditions is heightening deflationary pressure, and the downward trend of investment is lowering expected mid- and long-term growth rates.

Although the Japanese economy has made its way through the so-called “lost decade” of the 1990s, the current situation indicates that the economy is still mired in a vicious circle in which short-term deflationary factors hinder long-term growth, while pessimistic factors in the long-term outlook (such as concerns over government policies implemented to keep up with changes in the social structure caused by a transition to an aging society with a low birth rate) are leading to deflationary trends owing to under-consumption.

A series of various measures to revitalize the Japanese economy have been taken by the Japanese government and other agencies, but they were not effective and consistent. Their poor performances, combined with a loss of “cohesive power” on the part of the government and a general distrust in politics, seems to make the general public lose confidence in Japan’s future.

Never in the past has there been more need for definite, clear-cut vision regarding Japan’s short-, medium-, and long-term economy, coupled with systematic solutions. With this issue as the main theme, RENGO-RIALS launched its “21st Century Project,” led by Director General Sei Kuribayashi, and has continued to conduct relevant researches and studies over the last two years. This task requires more than a mere comprehensive analysis of the “cyclical” and “structural” aspects related to the Japanese economy during the “lost decade” of the 1990s, and moreover, it is necessary to probe a larger theme, that is, the fundamental issue regarding what “a good society” is for people, particularly workers who compose an overwhelming majority of the population. Market-oriented principles have prevailed in major currents of economic policies since the end of “the era of the West and East systems” which came after the collapse of the Berlin Wall. It has, however, become necessary to search for a correct sense of direction for the times, to assume a feasible “image of a good society,” and to work out a rough-sketch of the various processes that will lead to the realization of the ideal society.

[Some previous research reports relevant to this report]

In order to pursue a new concept of an ideal or good economy and society, RENGO-RIALS has carried out over a hundred research projects during the 10 years since its foundation, with the cooperation of researchers at home and abroad. Only some of them, which are deeply related to this research, are presented in the following.

At the time RENGO-RIALS was founded, a project for “The Plan for a Future Lifestyle in Japan” (Chairman: Director General Takao Sasaki, 1989) was conducted. This report attempted to provide a wide range of proposals for attaining a standard of living that was suitable for an economically advanced nation such as Japan by bridging the gap between an individual’s earning power and his or her lifestyle. Meanwhile,

the report entitled “Economic Structural Reforms in the New Age: Restructuring the corporate and public systems from the citizen’s point of view” (1993) advocated reform of distortions that were present in various Japanese social systems by establishing transparency and rules for competition. The report also asserted that, in order to secure and maintain social stability and unity in Japan, it was indispensable that a “welfare society” be built and that an outline for attaining it be designed. Also, in the report “Image of the Future Society” (Chairman: Mr. Kimihiro Masamura, 1994), strategies on how to reform the present "enterprise-oriented, maintain-the-status-quo" style of society were presented. By examining differences in the characteristics of two opposing models, namely an "individual-competing, market-driven model" and an "individual-respecting, social solidarity model," the report maintained that the latter type of society must be pursued, since it is consistent with the long-term benefits of employed workers.

In the report entitled “Toward a Welfare State with a System of Efficient Economic Management” (Chairman: Mr. Kenichi Miyazawa, 1995), the system related to "such economy and society" was proposed as a concrete form of an “individual-respecting, social solidarity model” society, elucidating the basic path that would lead to a "sustainable welfare society" together with an outline of such a system. As an extension of this study, “Building a Welfare State with a System of Efficient Economic Management” (Chairman: Mr. Kimihiro Masamura) was published in 2000, in which respective issues regarding an aging society were reviewed. Meanwhile, concerning the subject of goals and reforms related to human resource development and life-long education systems that form the basis for a sustainable welfare society, the report “Maintaining One’s ‘Brilliance’ throughout Life” (Chairman: Mr. Shogo Ichikawa, 1996) was published, in which education strategies in a knowledge-based society were presented. We have also often pointed out in our annual “Economic Report for Workers” that Japan’s spring wage negotiation “SHUNTO” is a socially rational wage setting mechanism and Japan’s industrial relation plays an important role in economic and social stability.

In the analysis of short-term fluctuations in the Japanese economy, the popular view on the “lost decade” and its remedy had been to attribute the causes to “institutional maladjustment of the Japanese economy.” Regarding this view, we were quick to point out the necessity and importance for structural measures taken against “debt-deflation” combined with adequate macroeconomic policies (see Economic Report for Workers 1997: “Sustainable growth and building a new economic and societal model” and others). Furthermore, when gloomy views were spreading around 1997-98 concerning the Japanese-style corporate model and the merits of such model (labor-management relations with Japanese aspects of industrial relation), we published the report entitled “Corporate Governance in Modern Japan” (Chairman: Mr. Takeshi Inagami, 2000) with advice from Mr. Ronald P. Dore on the ideal form of Japanese-style corporate governance. As for global environmental problems which have increasingly become an important issue, “Challenging the New Environmental Age” (Chairman: Mr. Takamitsu Sawa, 2000) was published. Based on such previous research reports by RENGO-RIALS, this report attempts to reconsider and recompose previous studies by taking into account recent theoretical development in the fields of economics and sociology at the present point of time.

[Characteristics of this report]

There are several characteristics of this report which are in line with the idea on “a good society” for the Japanese people, which is termed as “a welfare state with a system of efficient economic management” in this report.

The first point is that the report proposes comprehensive policies which integrate economic and social policies. This is based on the following recognition: In an economy and society, an individual carries out certain social activities while being a member of various organizations such as one's family, a non-profit organization, an enterprise, a local government, and the central government. Social activities, including economic activities, are not carried out by isolated individuals, as neo-classical economics assumes, but are rather carried out in mutually dependent social relations (networks), or social capital. These relations greatly affect economic efficiency and the state of market.

While assuming an individual's freedom and dignity as a basic prerequisite, four basic supporting pillars of a welfare state with a system of efficient economic management represents “full employment,” “a high-level welfare society,” “equal opportunity” and “an inclusive society.” Keys to achieving these features are democracy, decentralized decision-making, trust and solidarity, stakeholder governance, utilization of markets, stable financial systems, and effective and efficient governments.

The second point, which is in fact related to the first point, is the integration of employment policy and social security policy. Although these two policies are usually regarded as issues of different aspects, social security resources can be saved and economic growth enhanced if, for example, women's social participation is increased, more employment opportunities are given to older people, and job creation for young people is promoted via the development of human resources. If society can be vitalized in such ways and if the system is capable of being appropriately governed, it should lend credibility to the future models of social security and a welfare society, which today are increasing uncertainties related to people's lives.

The third point is the proposal of a “job-centered welfare society” as the ideal form of a welfare state with a system of efficient economic management. Full employment, which provides employment opportunities to all those willing to work, is the greatest safety net that can be provided. Key factors in realizing full employment are: expanding employment conditions and opportunities for older people, reforming “school-to-work” policies for young people, active labor policies to “increase overall employability” including the enhancement of workers' skills, and lifetime education and vocational training. Providing labor “flexsecurity” (flexibility combined with security) should be the core idea behind growth policies for the knowledge-based 21st century economy.

The fourth point is that the report addresses the significance of industrial relation as well as reaching socially rational agreement via broader participation. Important factors include stakeholder-based corporate governance that incorporates the merits of the Japanese-style employment system, and labor-management consultation to maintain order in internal labor markets with the aims of limiting easy worker-dismissal and of improving employment stability, in addition to a decentralized but concentrated wage setting system that features social rationality based on the annual "Shunto" wage negotiation mechanism. These factors not only represent the expansion of democracy in industry but are also the demands of present-day workers who seek self-fulfillment in the workplace. One of the tasks that needs to be tackled is establishing new work rules while at the same time ensuring that social disparity does not increase any further. Industrial relation is an essential mechanism to secure social cohesion in a modern society.

The fifth point relates to appropriate macroeconomic policies, financial policy, monetary policy, and growth policy that are implemented by an effective and efficient government. In order to counter the current situation of deflation and under-consumption in Japan, it is necessary to carry out monetary policy for an inflation target of around 2% as well as fiscal policy which aims at a real growth rate of 2-3% and a nominal growth rate of 4-5% per year. These goals may also prove to be the very conditions necessary for breaking out of the current budget deficit. Meanwhile public investment in the future should be taken under drastic review so that primary focus is placed on R&D for technological innovation in fields that Japan is relatively superior in, including IT, as well as on development of key infrastructure to cope with the aging society, and upgrading the urban-life environment. It is also essential that "an economic adjustment and new public investment accounting system" be created that is based on a multi-year, instead of a one-year budget system. It can be summarized that policy strategies which bear the characteristics outlined above contain an element of the "The Third Way" that European countries are pursuing, which was developed further to fit the reality of the Japanese society.

[Composition of this report]

In Part I, the report discusses "a welfare state with a system of efficient economic management," which is an ideal form of "a good society," and proposes comprehensive short-, medium-, and long-term policies for problems and issues that contemporary Japan faces. Part II is comprised of studies on the respective issues in the policy programs discussed in Part I, conducted mainly by researchers who have been engaged in related past researches. It should be noted that, due to the nature of the issues, it is difficult to attain a general consensus from all of the researchers on exact details, and therefore this report is characterized as a collection of individual papers written by the authors.

RENGO has organized the "Committee for Challenge to the 21st Century" in order to formulate strategies for union movement in the 21st century, and the Committee has published an interim report and is now

finalizing the report (2001 RENGO Annual Conference). In this draft plan of RENGO's vision - based on the recognition of the severe conditions present both in Japan and abroad - it is stated that "a welfare society centered around work" will be advocated as the new social economic model, and that of industrial relation will be aimed for.

It is our hope that this report by RENGO-RIALS will provide useful ideas and information for the 21st Century Vision that RENGO is attempting to establish. In proposing a vision of what constitutes "a good society" and discussing the various strategies to achieve such, there are many aspects which go beyond our abilities. Thus, this report is an attempt to summarize the ten-year researches and studies of RENGO-RIALS. We would like to thank all of the present and former researchers for their guidance and would be very happy to receive any comments regarding this report.

**“Toward a Good Society...Making People Feel Active, Safe and Secured:
A Welfare State with a System of Efficient Economic Management”**

Part I

- Chapter 1 What is a welfare state with a system of efficient economic management?
- Chapter 2 Realizing a welfare state with a system of efficient economic management
- Chapter 3 Historical trends and current situations of the postwar Japanese economy and society

Part II

- Chapter 1 View of the economy with an emphasis on labor
- Chapter 2 Diversification of employment and women's social participation
- Chapter 3 Study on how the economy and social security should be: with an emphasis on pension plans
- Chapter 4 Medical care and medical insurance: Current situations and issues
- Chapter 5 The essence of information technology-related innovation (IT revolution): Impact on living and work environment and policies
- Chapter 6 Environmental policy for the 21st century
- Chapter 7 Multinational enterprises and challenges labor unions face
- Chapter 8 Changes in labor-management relations and challenges in the 21st century with increasing globalization