

Reading the Trends of the Times

-The Virtuous Cycle between Autonomy and Solidarity-

Executive Summary

Purpose of this Research

Globalization since the end of the Cold War, the information revolution, the global financial crisis, and the trend towards democratization – the world is changing at a far greater pace than we are able to anticipate. We gain an understanding of individual aspects of this change through newspapers, the Internet and other media, but it is by no means an easy task to understand the movement of change in its entirety.

The National Institute for Research Advancement (NIRA) set out to conduct research that would enable a macroscopic understanding of questions such as what issues advanced nations are facing, what kinds of changes the individual systems and policies making up their policy regimes are undergoing, and what direction our era is tending in. We therefore engaged in discussions concerning the trend of the times in five fields, comprising industrial policy, financial regulation and supervision, education systems, healthcare systems, and pension systems¹.

1. Autonomy and Solidarity

Trends in systems and policies were considered around the twin axes of autonomy and solidarity. Autonomy refers to individual self-determination based on the individual's own norms, and here the market plays an important role as an arena of choice. Solidarity involves the provision of mutual support by multiple individuals in the face of shared risks such as unemployment and illness, which it is difficult for a single individual to deal with. In a corporatist regime such as France, the mutual assistance provided by traditional institutions such as families and companies falls into this category; in a social democratic regime such as Sweden, the role is played by state policies concerning the redistribution of income².

Cooperation becomes possible when autonomous individuals mutually support each other, and autonomy becomes possible when individuals share risk. In other words, autonomy and solidarity are each the precondition for the other.

2. The Issues faced by Advanced Nations – Where are we Now?

The following three issues facing advanced nations were considered.

Issue 1: Increased market risk makes autonomy and solidarity difficult for individuals and companies

As a result of the low-growth trend since the oil shocks and the effect of globalization since the end of the Cold War, companies and individuals are exposed to market risks in the form of bankruptcy and unemployment. In addition, low growth and the expansion of market risks in advanced nations have a significant effect on the funds that provide the foundation for cooperation.

Issue 2: Solidary systems that impede autonomy

Existing solidary systems have aspects that impede autonomy, and their effect is particularly conspicuous among younger generations. In France, social insurance by occupation, a social security system that diminishes the motivation to work, and stringent regulations concerning the termination of employment applied to companies constitute the foundation of the nation's solidary system, and they are affecting the development of autonomy among younger generations. The rate of unemployment among young people is extremely high in Sweden compared to other OECD nations, and it is doubtful that this will promote autonomy in the younger generations. Again, the rapid adjustment of the labor market was expected in the U.S., a liberal regime, but at present the unemployment rate remains high.

Issue 3: The difficulty of maintaining cooperative systems in aging societies

In the nations of the EU and Japan, rapidly advancing aging of the population is making it difficult to sustain solidary systems such as social security systems. As demonstrated by the problem of nonpayment of insurance fees in Japan, a lack of confidence in such systems is influencing people's actions, and this is affecting the sustainability of the systems.

3. The Trends of the Times – Where are we Going?

The orientation of responses mounted by the governments of advanced nations can be summed up as follows.

(1) Measures to enhance the virtuous cycle between autonomy and solidarity

1) System design: Solidarity \Rightarrow Autonomy

In the 1990s, the EU revised its welfare policies from the guarantee of livelihood to the guarantee of activity, under the banner "welfare to work." Specific measures were as

follows.

- Implementation of active labor market policies. For example, provision of employment training to workers at high risk of unemployment, provision of subsidies to companies employing the unemployed, activation programs³
- Promotion of increased availability of private pensions (individual pensions, company pensions, etc.), in line with reduction in public pension benefits
- Initiatives in the field of medical care designed to correct disparities in health originating in socioeconomic differences. For example, the formulation of the “Healthy People” national health plan in the U.S., etc.

2) System design: Autonomy ⇒ Solidarity

Initiatives have been implemented to increase the fairness of cooperative systems, in order to ensure that autonomy will enhance cooperation. Specific measures were as follows.

- In France, introduction of a social security tax in order to provide for benefits to individuals in difficult circumstances, such as low-waged workers (1991)
- Pension reforms in Sweden (1999): The design of benefits for low-waged workers with public funds as the source of revenue, fixing of rates for insurance fees, introduction of automatic income balancing mechanisms, transition to direct contribution system, etc.

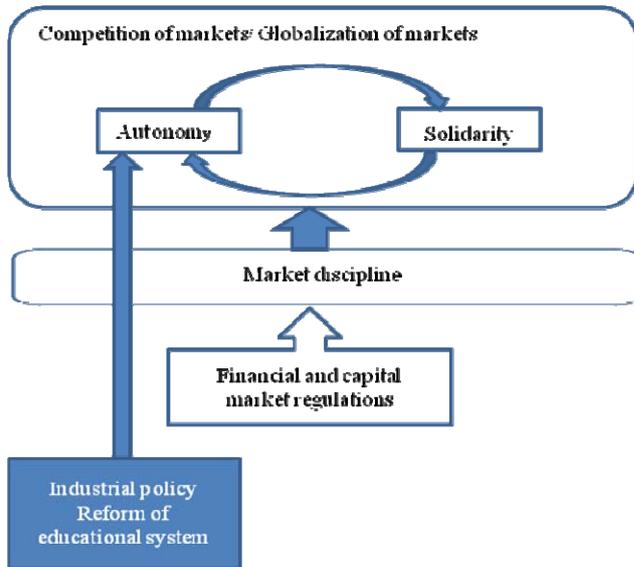
(2) Pursuit of market discipline through international cooperation

Maintaining market discipline is an important factor in maintaining autonomy and solidarity. However, it is not considered that the reforms of regulations being discussed at present will have a significant effect on the actions of shareholders. There remains a strong possibility that shareholders will continue, as previously, to pursue high risk and high returns. What is needed is a strengthening of international cooperation in the area of prudence policies⁴ in order, from both the micro and macro perspectives, to give markets themselves the power of self-restoration, and enable governments to cooperate in revising systems in response to changes in the environment.

(3) Efforts by the government to support autonomy

Awareness is growing that efforts by governments to encourage autonomy in individuals and companies have become increasingly necessary against the background of advancing globalization. In advanced nations, while future growth scenarios have not yet been sketched out, we are seeing attempts to somehow stimulate growth through the manipulation of industrial policy and reforms of the education system.

Policy in advanced nations



4. Our Role – System Design to Enhance a Virtuous Cycle between Autonomy and Solidarity

Transition to mechanisms that correct the defects in solidarity that impede autonomy, while at the same time enabling autonomy to enhance solidarity. Specific methods would be decided based upon consideration of the social and cultural background in specific nations.

In addition, the creation of a foundation for the maintenance of market discipline, which represents a prerequisite for the virtuous cycle.

Two considerations will be essential in conducting this system design. One will be to direct attention towards global developments. It will be necessary to ensure that the industrial policies and educational reforms being pursued by governments today do not expand the mismatch in labor supply at the global level. The other will be for advanced nations to work towards the creation of global rules, having recognized the existence of a diverse range of capitalisms.

Conclusion

As globalization advances, it is essential to seek new modes of autonomy and solidarity that are appropriate for Japan. This does not imply a nostalgic return to an earlier Japanese society. Nor does it mean choosing one of the options offered by Sweden, the U.S. or France, as discussed above. We believe that it will be possible to find the right path for Japan while aiming towards the realization of a society that generates a virtuous cycle between autonomy and solidarity. Without doubt, adopting a

global perspective and recognizing the diversity of capitalism will be extremely important for Japan, situated as it is in Asia, with its diverse nations. These efforts will entail difficulties, but it is very likely that the right path for Japan which they will reveal will also be valid for the rest of Asia.

Notes

1. Chapters 1 to 6 of the full report offer the perspectives of experts on industrial policy, the financial regulatory and supervisory system, regulation of the activities of financial institutions, the higher education system, the medical care system, and the pension system. These experts discuss their thinking concerning the issues being faced and systemic and policy responses in each of these fields.
2. This analysis is based on the three types of welfare state proposed by Esping-Andersen. In a corporatist regime, risk sharing is effected by mutual assistance (insurance systems, etc.) by means of traditional institutions, specifically the family and the company. Social democratic regimes emphasize the redistribution of income, with this function being supported principally by the state. Liberal regimes emphasize market mechanisms, and the government engages in only the minimum necessary redistribution of income.
3. Activation refers to policies in which unemployed people fulfilling specific conditions are obliged to participate in work training programs and seek employment in return for benefits, or in which the incentive to seek employment is increased by the setting of penalties.
4. Policies for the maintenance of an orderly financial system and regulatory and supervisory policies.

NIRA Report

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The Japanese version of the full report: <http://www.nira.or.jp/pdf/1003report.pdf>

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