



Challenges for Change in the Japanese Economy

by Yoshihiko Miyachi

The 1990s can be characterized by the globalization of our economies and societies, which will shape our lives in the years ahead. At present, change is being forced on Japan because of this movement, both from inside by people who realize that change is necessary to benefit from the global age, as well as from outside because of Japan's inseparable ties to the global economy.

These are not just issues for the economy and business, but are very important for society as a whole. I believe that a strong society can only develop if the economy is strong, which can only be maintained if individual businesses are strong.

I am pleased to say that we are beginning to see some changes in the Japanese economy, in the attitudes of business people, and in society at large. First, on the macroeconomic side we are witnessing the start of structural reform as a result of deregulation. The Regulatory Reform Committee, which is an advisory body to the Prime Minister, has made some progress in the last few years. I should stress, as chairman, that this is only a start. However, some real signs of progress have been made.

For example, the so-called "Big Bang" financial reforms have given a boost to restructuring the Japanese financial system, and institutions are restructuring or increasing partnerships. A number of new products are being offered to give consumers more choices and new business opportunities are being created.

The Internet and information technology services are also starting to take off. More and more companies are making use of the Internet to develop businesses. We are also starting to see lower telephone rates because of deregulation and this should help boost the spread of Internet use.

Other examples of successful deregulation include retailing, transportation, gasoline imports and wholesale electric power generation. The situation in Japan is not all doom and gloom; there are some bright signs. However, for these changes to lead to lasting benefits, I believe two conditions must be met.

First, deregulation must progress further. It is believed that more than 40% of Japanese industries are still regulated in one way or another. For the United States, that figure is as low as 6.6%. Undoubtedly, Japan is still a highly regulated country.

We have already seen the benefits of deregulation of the American economy. It is estimated that close to 20 million jobs were created as a result of deregulation in the 1980s. Even in Japan, such industries as telecommunications and

financial services have been given some boost by deregulation, so it is clear that deregulation can lead to economic growth, employment creation and more choices for consumers.

Unfortunately, change in Japan is said to be slow. Many business people still oppose changes because it will jeopardize their vested interests. However, about 60 percent of business is calling for deregulation, but they are not strong enough to force drastic change. It is still a fairly balanced tug-of-war.

In addition to business people, most Japanese citizens are happy with the status quo and do not want drastic change. Even if politicians have the desire and political will to push through changes, they might be reluctant to alienate voters. It is a time of difficult choices in Japan and the next few years will continue to be a challenge. However, challenge is also an opportunity, and there is still hope that Japan will seize that opportunity.

The second condition to continue and promote the process of change is to create a buffer zone to make sure people do not unduly suffer during the transition. There are winners and losers in a market economy, but some people become losers without any fault of their own. There has to be, therefore, some way of easing the pain sometimes caused by the market. In particular, re-training programs are vital. We need unemployed people from shrinking sectors to move into new growth sectors and they can only do so if they have the proper training.

In addition to deregulation and structural reform, the American experience is a valuable model for business management as well. Greater market forces will force managers to change. They must live by market rules or leave the market.

First, in order for Japanese managers to survive, they must place more emphasis on shareholders. In the past, the Japanese system has been referred to as stakeholder capitalism; managers have given priority to creditors, employees, customers, local communities, suppliers and shareholders. Unfortunately, shareholders were not always at the top of the list of priorities.

Now, creation of shareholder value is vital for the survival of Japanese firms. Of course, there are many types of shareholders. Some want steady, long-term growth and others want quick short-term gains. The trend in the U.S. is often for the creation of short-term profits, and this may not be the best model for all companies. However, shareholder value and a focus on profits will be necessary for Japanese firms to survive.

Japan can also gain from America's experience in transparency and corporate governance. Companies that disclose information and have a good system of governance

force management to pursue the goals of shareholder value and profits.

Things are beginning to change in Japan's corporate culture. More managers are talking about shareholder value and the need for change. Some companies that have succeeded in global competition are prospering because of their ability to change and implement new business methods.

In the past, I had hoped that the government and its promises of structural reform would encourage further change. But these promises have only been partially met and many more steps must be taken. I now think the driving force of change will come from innovative companies that become the models for Japanese business. Companies that do change their ways to become profitable enterprises and centers of innovation will help promote greater changes in the Japanese economy as a whole. In the U.S. leading companies have often been the instigators of change as other companies try to catch up. This increased competition will be a great benefit for the Japanese economy in the years to come.

One thing about Japanese culture is our group mentality. Japanese love to follow the leading trend. Sometimes this is dangerous, as we saw with the bubble economy when most companies jumped on the bandwagon to reckless investment.

I recall a Russian anecdote about a luxury cruise ship that ran into troubles on the open seas and was sinking rapidly. The captain put all the women and children in the life boats, but there was not enough room for the men. The captain decided to get all the men to put on life jackets and jump. On the boat, there were men from U.S., Britain, Germany, Italy and Japan. In order to get the men to jump, the captain gave the men from each country a different order and everyone jumped off the ship. To the Brits, he said: Jump if you are a gentleman! To the Germans, he said: This is the order of the captain! To the Italians, he said: Do not jump! To the Americans, he said: You are all insured! And to the Japanese, he said: Everyone has already jumped!

This group mentality can also lead to very rapid change once the group starts to move. When a few leading companies become the model, many companies will try to copy the success of the leaders and the market could be revolutionized in a short period of time. I think there is potential for rapid change over the next few years as new ideas, new models and new leaders emerge in Japan.

I believe, as we approach the 21st century, the question is not whether Japan will change, but how far and in what direction it will change. Perhaps the greatest condition is how far Japan is willing to open itself to the world, which it has begun to do. For instance, direct foreign investment in the first half of this year was double the amount in the same period of last year and five times higher than in 1997. However, Japan still invests about eight or nine times as much overseas as foreign companies invest in Japan. Japan needs to become an attractive country in which non-Japanese want to invest, do business and live. Japanese consumers deserve a greater choice of products and services. Greater competition from overseas companies will strengthen the Japanese economy.

The opening of Japan may be difficult for some Japanese. But a Japan that is attractive for investment, for business and for living would be a Japan that provides more benefits to Japanese people as well.

A shift to a more open society will have a profound impact on Japanese society, which since World War II has been based on the principle of equality of results – the results of group and societal interests were given more priority than individual interests. This contrasts strongly with the “equality of opportunity” in the U.S., where opportunity for the individual has been the ideal.

In postwar Japan, the creation of a prosperous, democratic and stable society has been at the heart of the principle of “equality of results.” The Japanese economic success has been enjoyed by a great majority of the population. The tax structure has made sure that everyone has a share of the prosperity. According to UN statistics, Japan's social security benefits were more than twice that of the United States in 1996. In education, emphasis has been placed on uniformity and group cohesion. Students are all expected to progress at the same level, even if it means that some students are not given the opportunity to develop to their full potential. Even in corporations, people that performed differently received salary increases more dependent on their age and length of time in the company and not entirely on ability and productivity. Relatively few people were forced to live on the streets, crime rates remained low and the vast majority of people enjoyed social stability and predictability. Most Japanese felt themselves middle class and were happy with the equality of results that produced a stable and predictable society.

We now see that these social norms have also been an obstacle to change and innovation. Promising young students and workers do not always have the incentive to develop to their full potential. Some workers think that their jobs are a given right no matter how much they produce. The inability to change is now having a negative effect on Japan's economic development and in turn may undermine the economic strength that is necessary for a strong society. In the past, as long as the economic pie was growing, there would be enough to share with everyone. But in recent years the economic pie has stopped growing, and without changes it will be difficult for the pie to grow again.

What about the United States? Americans are proud of their “equality of opportunity” based on the individual, but sometimes this brings inequality of results. For example, the gap between the poorer members of society and the rich has widened and has constantly been greater than in Japan. Now that the American economy is doing very well, these issues have been hidden by economic prosperity, but if the economy slows, the gaps between different members of society may result in increased social confusion. Without a strong society, America may lose some of the benefits that its economic resurgence in the 1990 has produced.

It appears that if Japan goes any further in the promotion of equality of results, the economy will suffer and so will society. One indication of the lack of opportunity is the ratio of present businesses to new start ups. In 1998, only 4.6 businesses were started for every 100 existing businesses. In

the U.S., the figure was 11.4 percent, or almost three times as high. In terms of business opportunity, Japan has a long way to go.

The emphasis on only the market and individual “equality of opportunity” has been good for the U.S. economy. But is it enough to maintain a strong society? In this regard, perhaps more emphasis could be placed on society.

What we might see in the years ahead is a shift toward the center of these two types of opportunity. In fact, we are starting to see that shift now. As I have mentioned, Japan is undergoing changes that include more market principles and “equality of opportunity.” In the U.S., President Clinton’s efforts to encourage business to invest in less prosperous areas of the country is an example of a concern for society as a whole. The U.S. also has a long history of philanthropy and charity in which the more fortunate can make a contribution to society.

Obviously, Japan and the United States will remain different societies. But both countries have many positive qualities that could enrich both societies. I would hope that we can somehow develop societies that merge “equality of results” and “equality of opportunity” into something that promotes individual opportunity and a concern for the creation of a better society for all of us.

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