

**National Institute for Research Advancement  
Policy Research Report**

**Report of the Joint Research Team on Socioeconomic Revival in Japan**

**Proposals for Establishing  
an “Open Society of Trust and Independence”**

**< Outline of the Research >**

These proposals were established on the basis of a series of discussions held over the course of a year (between 2002 and 2003) by the Joint Research Team on Socioeconomic Revival in Japan, made up of NIRA researchers and the corporate executives who form the *Jidai wo Tsukuru Kai*, a sub-group of the *Keizaidoyukai* (Japan Association of Corporate Executives).

The team was supervised by Yotaro Kobayashi, Chairman of NIRA and then President of the *Keizaidoyukai*. It focused on exploring the basic concepts necessary to build a new Japan, and published its results as a research report<sup>1</sup> in May 2003. The following is an outline of that report.

**Outline of Proposal**

1. Socioeconomic revival in Japan requires that the existing social framework, oriented towards reassurance and security, be replaced by a new framework with the following characteristics:
  - (1) “Open trust” serves as the fundamental concept and norm.
  - (2) Based on a vision for the creation of a society and economy highly

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<sup>1</sup> <http://www.nira.go.jp/newsj/kanren/120/120/index.html>

- adaptable to change (organized according to the principles employed in a game like soccer)
- (3) Possesses a cross-sectoral institutional infrastructure able to transcend the current vertical compartmentalization of administration.
2. Proposals for the strategic establishment of the above concept, vision and infrastructure were formulated to enable the creation of a Japan rich in social capital<sup>2</sup>.
  3. These proposals were explained with reference to the requirements for games like soccer, to make the concepts more readily accessible and thus obtain broader support among the general public.

## **Current Status**

### **■ Japan Needs a New Social Framework**

A variety of proposals have been made and policies formulated in the attempt to achieve socioeconomic revival in Japan. However, substantive values that can serve as the basis of a new era in Japan have not yet been determined, and no broad trend towards fundamental change has yet appeared.

Existing social mechanisms and frameworks are outdated and will not be effective in future. It is therefore essential to reevaluate the current social framework oriented towards reassurance and security and the system of decision making based on consensus and ex ante adjustment that prevails in the arenas of policy formulation and management. In reality, however, matters generally only proceed on the basis of the existing top-down, vertically divided framework. Japan is caught in a trap in which individuals work hard in their own areas while the nation as a whole fails. Contemporary Japan requires a social framework equivalent to what would be termed in the world of computers an integrated operating system.

## **Outline of Policy Proposal**

In the coming society, knowledge and information will be strategic resources for social innovation. As this transition proceeds, the establishment of a new system of social values will be the key to social development, and will serve

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<sup>2</sup> In this paper and the research report from which it derives, the term “social capital” has been translated into Japanese as “*shakai-kankei shihon*” rather than “*shakai shihon*.” This translation has been used in order to make a clear distinction between the simple accumulation of tangible social capital and the building up of the intangible bonds of trust and collaboration which represent cognitive social capital and the soft infrastructure which represents structural social capital, and to emphasize the importance of the latter. It is hoped that the use of this translation will enable the concept to take root in Japan.

as a source of energy and pride for citizens. From the perspective of the next ten or twenty years, now is the time for Japan to consider and establish a new identity and new philosophies, concepts and values to support it in making the most of its rich potential.

What form of society, then, would be most appropriate for a new Japan? Expressed concisely, a society organized according to the principles employed in a game like soccer. In soccer, no player can tell which direction the ball will come from, making it entirely different from a game like baseball, in which there is a regular transition between offense and defense and the coach’s instructions are directly reflected in the play. The important factors in soccer are the skill, speed and physical strength of the individual players, and the instantaneous exchange of information between them.

The basic requirement for winning a game like soccer is the ability of the coach to instruct the players, to use the players in appropriate positions and to establish a strategy for cultivating new players. Other factors, which can broadly be compared to soft infrastructure, are also important in soccer, including fair and explicit rules, A-class referees and an adequate playing field. Highly-skilled players and spectators are also essential. The vision of a socioeconomic system that conforms to the principles outlined in this analogy is not a top-down vision; it is formulated spontaneously by independent managers and employees who understand the need for a society which is highly adaptable to change. It is a vision that emerges from the insight of these experienced innovators. (Fig. 1)

**Figure 1: Six Basic Requirements for Revitalizing Japan’s Socioeconomic System**

Soccer	Japan’s socioeconomic system
1. Rules	Legal system and rules (Soft infrastructure)
2. Referee	Government and regulatory organizations (Soft infrastructure)
3. Coach	Corporate and government leaders
4. Playing field and other infrastructure	Market infrastructure (Soft infrastructure)
5. Players	Managers and employees (Social actors)
6. Fans and spectators	Citizens

## **Policy Proposal: Social Capital for the Creation of a New Japan**

### **The new role of the government**

With the aim of creating a strong socioeconomic system of the type that would be skilled at games like soccer, the government must fundamentally reform its organization, systems and policy process in order to function as a provider of citizen-oriented services and a supporter of the restoration of confidence in market functions via their enhancement and improvement, pursuing the overall optimum rather than the convenience of the ministries and agencies (the pursuit of the local optimum in the vertically compartmentalized administration).

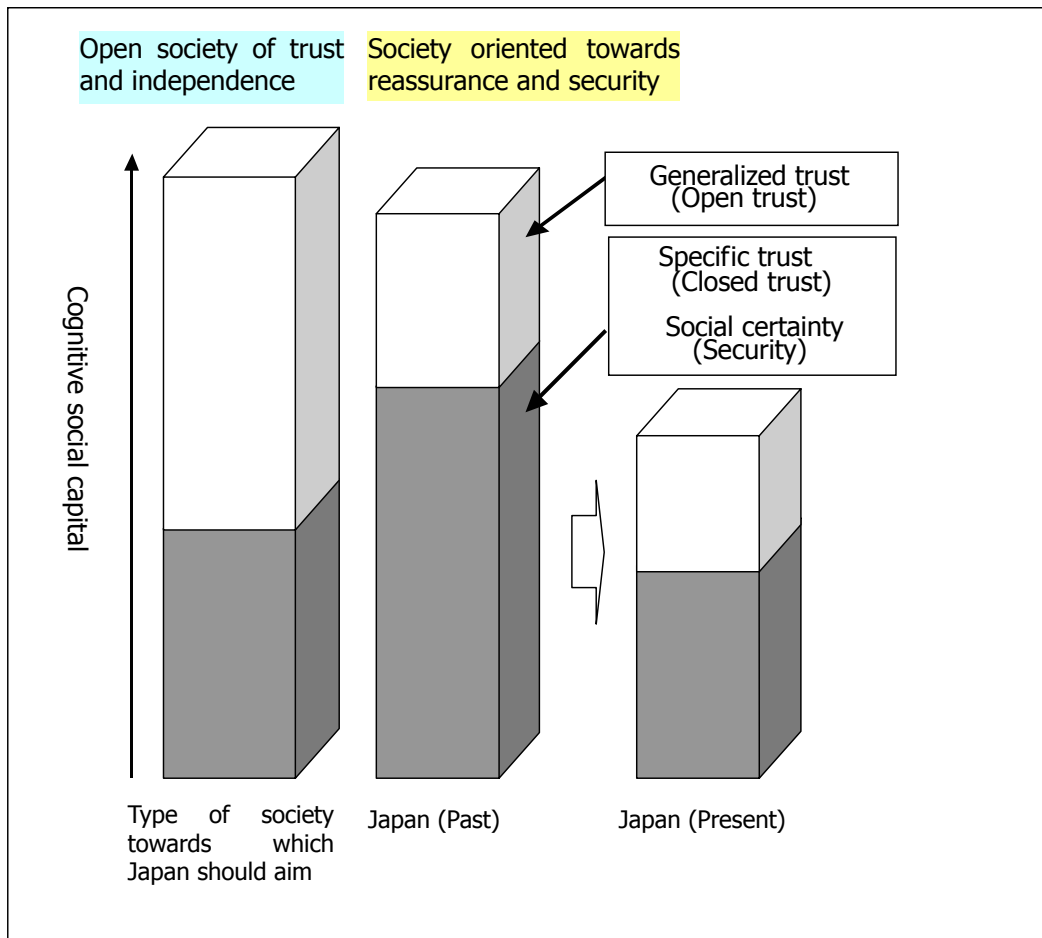
The government must make the transition  
from discretionary administration to the establishment of integrated market rules;  
from coordinating and supervising industry to acting as a fair A-class referee for citizens and the markets  
from vertically compartmentalized industrial policy and fostering of industry to the creation of the cross-sectoral infrastructure essential to the markets and the provision of integrated services to citizens.

Political leadership and the support of citizens will be essential to the achievement of these goals.

### **A society oriented towards reassurance and security and an open society of trust and independence**

The project team proposes terming the new society towards which Japan should aim an "open society of trust and independence." A comparison with the existing "society oriented towards reassurance and security" will be helpful in elucidating the concept.

**Figure 2: Open Society of Trust and Independence**



**Figure 3: Open Society of Trust and Independence versus Society Oriented towards Reassurance and Security**

	Open Society of Trust and Independence (Proposed new society)	Society Oriented towards Reassurance and Security (Traditional Japanese society)
Basic principles	Generalized trust, cooperation and spirit of reciprocity and trust towards systems, rather than specific commitment	Commitment to a specific group Value systems emphasize human relationships within single group
Principles related to collaborative groups	Voluntary collaboration and cooperation within and outside an (open) community Mutual trust between independent citizens	Mutual trust and confidence within a (closed) group
Rules (Concepts and norms)	Clear, cross-sectoral and comprehensive (horizontally integrated) Norm of openness and reciprocity = Generalized trust (Contractual psychology)	Unclear and specific (vertically compartmentalized) Norm of mutual benefit within a group = Specific trust (emphasis on vested interests within a group)

	(Benefiting and caring for others)	
Capability of responding to risk	High (Excellent balance between risk and return)	Low (Low-risk/high-return structure)
Role of government	Provision of safety net for citizens (trampoline) and supplementary support Ensuring minimum of regulations and integrity and efficiency of markets (Qualitative) Structural reform of the supply side	Control tower located at pinnacle of vertically structured organization Supervision of industrial groups and cultivation of industries (Quantitative) Stimulation of total demand
Key words and phrases	General trust, open trust, cautious trust, integrity, society oriented towards network-based collaboration, horizontally connected, independence and autonomy, self-responsibility, transparency, individuality, individualism, fairness, contract society, fiduciary duty, democracy	Specific trust, closed trust, reassurance, security, social certainty, guarantee of mutual benefits in vertically structured groups, sense of unity, paternalism, company spirit, faith in big companies, preference for exclusive groups, interdependence, double standards, form and substance, enclosing community
Others	<p>Increased socioeconomic values due to the enhancement of cognitive social capital (bonds of trust and cooperation).</p> <p>The establishment of social systems and soft infrastructure (structural social capital) consistent with the above, resulting in increased trust and capability to respond to risks.</p> <p>Capability to make appropriate decisions and awareness of issues on the basis of sufficient information → Fosters confidence (Self-esteem)</p> <p>The ability to evaluate other people appropriately, cautiousness and the ability to accurately perceive risks will be crucial.</p>	<p>Effective during the period of rapid economic growth.</p> <p>Stagnation precedes historical turning points.</p> <p>Communication is smooth within same organization.</p> <p>Danger that mythologies will form around highly successful individuals</p> <p>The framework of the society oriented towards reassurance and security has deteriorated noticeably.</p>

### **Social capital as the foundation of an open society of trust and independence**

To establish the social framework necessary for Japan's future, it will be essential to ensure that new concepts and new norms based on open trust take root. Concurrently, a new vision must be presented, and must achieve widespread support among citizens. Japan has to date focused on the

establishment of tangible social capital; it is now important for the public and private sectors and citizens to make a strategic transition in their thinking towards the establishment of intangible social capital.

Social capital can be compared to glue. As the society oriented towards reassurance and security declines, the group framework on which it was based is contracting. The closed trust fostered within that framework must be reinvented as open trust on the basis of new concepts, and become the glue which will connect citizens and establish multi-leveled connections between community and market economy networks. It is essential that this glue is spread widely throughout 21st century Japanese society.

### **Outmoded socioeconomic systems still in place**

However, the existing socioeconomic systems in the fields of politics, government, administration and business (structural social capital) can be expected to present some impediments to the establishment of the social capital required to institute a new era in Japan, and this is also related to the pursuit of the local optimum in the individual units of the vertically compartmentalized administration.

Special attention must be paid to the fact that a large proportion of the structural social capital established under the old framework, including legal statutes and the system of economic and social regulation and administrative guidance overseen by the vertically-divided administration are still protected and preserved under a hard shell. However, this structural social capital is not capable of enhancing market functions or promoting fair competition in the market.

The following issues, for example, must be considered.

- (1) The traditional "convoy system" has collapsed and the financial Big Bang is underway. However, laws and regulations such as the Securities and Exchange Law, the Investment Trust and Investment Corporation Act and the Commodity Fund Law, which were designed to support the legal systems relating to companies and the financial and capital markets are still supervised in a compartmentalized manner by the specific ministries or agencies concerned. Improvements have been made after problems have arisen, but the type of comprehensive horizontal regulations able to replace the vertically-compartmentalized regulations, which are essential from the perspective of users of

services, have not come into effect. In other words, Japan's financial and capital markets, broadly defined, do not have comprehensive and cross-sectoral laws to protect the users of financial services. In addition, fiduciary duty, which may be termed the principle of trust for individuals acting on behalf of others and which should provide the foundation for these laws, has not been clearly defined.

- (2) The traditional employment guarantees provided by Japanese companies are rapidly diminishing, but as yet the necessary comprehensive system of labor laws able to guarantee employment opportunities via the labor market has not been established.
- (3) Systems related to the finances of the central government and regional administrations, taxation, public pension and social welfare, including public pensions, are worn out and incapable of responding to the changes in society. The discipline necessary for maintaining trust in these systems is either non-existent or weak.

A large proportion of the vertically-compartmentalized structural social capital of contemporary Japan has become inflexible as a result of medium- to long-term efforts to stabilize and maintain it. Reform will therefore require enormous energy and significant cost. However, it is important not to give up attempting to break through the stiff shell that protects this old social capital.

It must also be remembered that citizens have already paid the opportunity cost for the adverse effects that have been caused.

We must focus on the fact that Japan remains deadlocked, unable to commence efforts to fundamentally reform these systems.

The fact that Japan has been unable to proceed with the type of creative destruction which is required, despite the drastic changes in the social and business environments, is related to the fact that there has been no clear vision (such as attempting to develop a framework of the type that would be effective in games like soccer) to provide the foundation for the creation of a new systemic infrastructure.

### **Simultaneous shrinking and deterioration of social capital**

Japan is currently experiencing a simultaneous shrinking of trust (cognitive social capital) and deterioration of soft infrastructure (structural social capital). While trust is shrinking within the framework of closed groups, the soft infrastructure that supported Japan's socio-economic framework remains

unchanged although it has become old, worn-out and unsuited to the present era. This has produced a vicious cycle of decline in trust towards infrastructure and decline in trust towards the society as a whole.

The simultaneous shrinking of cognitive social capital and deterioration of structural social capital will mutually aggravate each other, which will in turn create imbalances in the very foundations of society. These imbalances will make the problem increasingly complicated and the solution will thus become more difficult.

**The goal to be pursued: Social acceptance of the vision and recreation of structural social capital**

The vision of a society which would be good at games like soccer, i.e. highly adaptable to change, will be essential to a fundamental solution of these problems.

When the vision of the socioeconomic system to be pursued is established and becomes well-known, more citizens will become more clearly aware that the new soft infrastructure of a society that would be good at games like soccer will be essential to enabling markets to fulfill their innate functions, and that existing systems, protected under their hard shells, are not able to do so.

**Figure 4: Elements of Japan’s socioeconomic system categorized as elements of a soccer game**

Soccer game	Japanese markets (Problems exist with respect to elements marked with a ●)
1.Common rules	●Vertically compartmentalized laws, regulations, administrative guidance, and customary practices (soft infrastructure)
2.Fair A-class referee	●Central ministries and business organizations (soft infrastructure)
3.Manager as the leader	●Presidents of business organizations and company presidents
4.Well-equipped playing field and related infrastructure	●Vertically compartmentalized and closed transaction methods and exchanges (soft infrastructure)
5.Team members including professional players	●Business organizations, businesses, etc.
6.Supporters and audience	●Customers (who are members of groups oriented towards security)
7.Spectators (audience)	Stakeholders (customers and consumers)

Fundamental structural reform is essential, reform that will recreate all

elements of structural social capital including the judiciary, the system of administration, the legal system, central and local governmental finance, the taxation system, the pension and other welfare systems, the education system, the medical system, agriculture-related systems, financial and capital market infrastructure, and employment market infrastructure. Only with this new vision and soft infrastructure can Japan free itself from the old vertically compartmentalized framework oriented towards the local optimum and seek the overall optimum for Japan as a whole.

With a new set of common rules and a fair referee, companies and workers will be able to enhance competitiveness by promoting innovation.

These are the keys to Japan's revival.

### **Avoiding destruction without a vision**

We must ensure widespread awareness among citizens of the urgent necessity of redesigning and recreating Japan's deteriorating structural social infrastructure, and ensure that there is a broad consensus regarding the fundamental vision required for its establishment. There should also be a common sense of crisis with respect to the potential social impact if we fail to reestablish this social capital.

One of the reasons why Japan's old structural social capital remains firmly in place is the absence of a blueprint for a new systemic infrastructure based on a new vision. If the old system is torn down and there is nothing to replace it, the result would be chaos (destruction without vision).

To avoid this destruction without vision, an alternative grand design capable of showing that the creative destruction of the existing system is feasible must be formulated.

A grand design for a new institutional system must be formulated based on a new vision and we must convince citizens of the feasibility of establishing cross-sectoral rules and systems to function as new standards in accordance with this grand design. However, no one has succeeded to date. This cannot be achieved by the government alone. It is the task and the responsibility of all those who have the requisite will, specialized knowledge and experience in actual market practices.

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The National Institute for Research Advancement (NIRA) is an independent policy research body established on the initiative of leading figures from Japan's industrial, labor and academic communities. The Institute was founded in 1974 under the National Institute for Research Advancement Act and is funded through an endowment of capital contributions and donations from both the public and private sectors.

NIRA's primary objective is to conduct independent research from a long-term perspective that will contribute to the resolution of a variety of complex problems facing contemporary society. To this end, in addition to conducting its own comprehensive research program, NIRA works actively to disseminate research results and to promote exchanges and joint research projects with numerous domestic and foreign institutes.



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