Japan at the Crossroads[1]

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Japan is the world's first economy to attain maturity. From the perspective of GDP growth indicators and conventional economic theory, Japan, we are told, is "stagnating." US economists dispense advice almost frantically: "loosen monetary policy," "liberalize," "open Japan's economy wider," "cut company payrolls and make Japan's labor force more flexible" and from the usually conservative, London-based *The Economist*: "print money"!

From a futurist's perspective, all this advice is nonsensical. Japan is transitioning from short-term, material economic growth at whatever social and environmental costs - to more mature long-term economic optimization. Recognizing that Japan has reached a comfortably high plateau of widely-shared, materialistic achievement, will require a new national debate. Japan is discovering that it needs a new economic game plan. This change of course, will require a new scorecard of national wealth and progress, which can measure advances toward greater quality-of-life for all Japanese citizens.

As people acquire more and more material assets - cars, well-furnished homes, high-quality food, clothing, TVs, cellphones, toys and novelties - they turn to more spiritual, non-material concerns. Such satiated consumers look for personal development, intellectual challenges, opportunities to volunteer and make their communities more livable. These higher goals become new measures of satisfaction.

All this is reflected in the public sector. Japan already has the finest public buildings, trains, roads, bridges and cities in the world. Like most visitors, I love Toyko's clean, safe, orderly streets and efficient subways, riding on the Hikari to Osaka and Kyoto and the ease with which I can visit Fukuoka and Sapporo. Japanese people have higher average educational attainment than Americans. Decades of low unemployment and wide income distribution maintained social harmony and avoided US-style poverty gaps. Japan retained many valuable traditions and aesthetics,

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which visitors admire. In a word, the quality-of-life in Japan seems higher on many social and environmental indicators than that in the USA.

Japan's economy is twice as energy-efficient as that of the USA, which means half as much pollution and waste. Japanese people can still shop in friendly, small stores in local neighborhoods - while Americans must get in to their gas-guzzling 2-ton SUVs and often drive 25 miles for a container of milk. During the trade-related "structural impediments" debates of the 1980s, US "free traders" tried to make Japan as energy-wasteful as the USA!

So why all the advice from foreign economists to sacrifice such social amenities to hype material growth of GDP? Growth rates must always be related to the base size of an economy - as it grows large - the *rate* of growth naturally must slow. Why keep constructing ever more highways, bridges and other unneeded public works - just to boost such "adolescent" economic growth rates to impress global markets and raise investors rates of financial return? Does money always equate with wealth?

Japan is admonished, "you must keep GDP growth rates high, get the Nikkei moving back up so your banks will stay solvent and you can reduce your "shockingly high" public debt of some 120% of your GDP."

Let's look a bit closer at that public debt. Yes, it is high, but look at all of the fine array of public assets, those funds bought: the railways, roads, public education, universities, etc... These assets are still there - and will be for hundreds of years! And what about the generations of healthy, well-nourished, highly educated citizens these public funds have produced, which will go on paying social dividends for many decades?

Today, there is no need to go on trying to hype GDP-growth by more construction projects. There are new and better ways to grow. Japan can invest in improving quality-of-life, human development and an ecologically-sustainable economy with "greener," high-tech companies, products and services. Prime Minister Koizumi has some of the right ideas: like having government departments buy new energy-efficient, less polluting cars, such as the hybrids of Honda and the Toyota Prius, which I own.

But the first thing Koizumi needs to do is challenge those economists who don't understand the difference between money and true wealth, between a society's "adolescent" growth stage and its wiser, adult maturity. Imagine if your son and daughter kept on growing at their teenage rate. They would end up as monsters! Parents hope their teenagers will learn and grow spiritually - to become good citizens. Economies and societies can also reach for non-material goals, higher levels of services, culture, art and spiritual development.

Prime Minister Koizumi could announce that GDP is no longer an appropriate measure of economic maturity and that GDP will be re-calculated to include social and environmental costs and benefits. As a start, in the same way that the USA did in January 1996 and Canada adopted in 1998, Japan's public works investments in national infrastructure will not only be recorded as public debt.

These public infrastructure investments will also be accounted as the long-term assets they are - and amortized over their 5-100 year useful life (just as factories are on company balance sheets). This would correct the false impression that Japan is carrying any more public debt than the USA or any other OECD country. Indeed, it was this very same accounting change in the USA that contributed in large part to the much vaunted (but now shrinking) US budget surplus! The same happy national account recalculation produced a $50 billion windfall, which put Canada's budget in surplus.

Once Japan has corrected its national accounts in the same way, the banking "crisis" will recede and restructuring can proceed more easily. Japan's budget will look more manageable - if not show a surplus. Victory can be declared, and Japan will announce to the world that it is now calculating its national progress even beyond this new GDP. The new mature Japan's scorecard will measure Quality-of-Life - using selected new statistical measures similar to the UN's Human Development Index (HDI) and the World Bank's new Wealth Index, which counts 60% of the wealth of nations as human capital and social assets, 20% as ecological assets and only 20% the built assets (financial capital, factories, etc.), which GDP measures.

Even economist John Maynard Keynes wrote in 1930 in his *Economic Possibilities for Our Grandchildren*, the economics problems may be solved in 100 years, "Then man(sic) will be faced with his real, permanent problem,....how to use his freedom and occupy his leisure." This is mature Japan's new challenge. The next article will explore how many other economies are also in the GNP-growth trap.

Note

1. This essay is forthcoming as well in *Nikkei Ecology* (2002).