An Escape from the Myth of Growth: A New Perspective on Japan’s Zero-Growth Economy

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Abstract | Japan’s economy after the 1990s is often considered as an era of failure, being the so-called “Lost Decade,” or “Lost Two Decades.” However, this paper asserts that this era should be reinterpreted as a period that underwent a series of trials and errors in order to seek a new epoch. In this case, Japan’s current economic situation is exemplified by its zero economic growth, a stage that other developed economies are destined to reach. This is because economic growth cannot be sustained as in the past, once environmental problems and resource constraints are taken into account. But it is possible for developed countries like Japan to achieve a vibrant society while experiencing zero economic growth. For this to happen, the government has to prioritize the policy goal of improving people’s quality of life, while businesses endeavor to decrease unit consumption in order to save resources. In addition, individuals need to change their mindset so that the time they save through increased productivity is spent on leisure, rather than earning extra income.

Keywords | economic development, zero economic growth, resource constraints, improvement of quality of life

Introduction

Japan’s prolonged economic recession is posing serious problems and normalizing the term “Lost Two Decades.” When national economic indicators such as GNP or GNE are considered, there is little chance of the rate of growth going beyond zero in the near future. Although it is generally more appropriate to look at the per capita index rather than the quantitative data of the nation as a whole, even using per capita data, economic growth is hard to foresee. In fact, as long as indicators like GNP and GNE, which have been used for almost half a century, are still regarded as important, it is difficult to predict economic growth in the present Japanese economy. However, the LDP government has been
instigating a sense of crisis by encouraging negative concepts such as “low growth” and “stagnation” and has been forcing the people to accept their suffering.

Is Japan’s economic situation really a serious problem? Could it not be that we are so caught up in quantitative growth that it is difficult to see reality properly, thus preventing ourselves from coming up with necessary measures? The opinion that the decline of competitiveness for Japan’s businesses is causing economic stagnation is prevalent among economists and businessmen. They claim that the corporate tax rate should be lowered and the flexibility of labor should be expanded to solve the problem. In addition, they explain that high wages hurt corporate profits and therefore impede active investment. However, despite these plausible explanations, it is difficult to say whether policies based on such contentions have generated effective results. Therefore, it is necessary to go back to the basics and clarify the issues that need to be examined, and to ponder how to disentangle the various problems in Japanese society.

Economic Development and Economic Growth

According to American economist Charles P. Kindleberger’s *Economic Development*, the key factors that lead to economic development are (1) improvement in the material welfare of the minimum wage earners; (2) eradication of poverty closely related to illiteracy, diseases, and premature death; (3) change in the input-output configuration within the basic structure of production, including the transformation of an agricultural sector to an industrial sector; (4) economic organization, which enables productive employment among the working-age population rather than the privileged minorities; (5) participation of broader groups in determining the roadmap on how to improve welfare in economics or in other fields (Kindleberger and Herrick 1981, 1). In short, Kindleberger defines economic development as a phenomenon that assures the enhancement of economic abundance. It entails equality of educational opportunity, improvement of health and quality of life and lastly, securement of a democratic decision making structure in which people with different interests can participate.

Kindleberger first clarified what it means for an economic society to “develop” by using the aforementioned factors. Then he pointed out that since the mid-twentieth century, economic development has determined its scope and pattern in advance and then intentionally brought about social change within a prearranged plan. In other words, by taking the economic growth rate as the key
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macroeconomic indicator, quantitative expansion of the economy became more significant in evaluating economic growth, thus deviating from the original definition that stressed the importance of qualitative data. Kindleberger warned that demanding a change in the economy’s scale is a risky idea that opens up the possibility of failure, frustration, and mistakes in development and could lead to flawed policies.

From this critical perspective, Kindleberger stresses that the definition of “economic growth” and “economic development” should be clearly distinguished (Kindleberger and Herrick 1981, 2-3). The former mainly refers to the increase in production, and it is defined as showing an economic transformation, such as improved efficiency and production. The latter implies an increase in output along with technological and institutional changes that allow goods to be produced and distributed. Simply put, the two terms draw a sharp distinction between quantitative and qualitative change, but they imply that the importance of qualitative change should be recognized. When compared with human growth, the former focuses on height and weight, whereas the latter emphasizes the change in the functional aspects and abilities.

Kindleberger asserted that it is insufficient for developing countries to pursue mere economic growth to achieve economic development. Instead, he contended that an effective measure should not only eradicate poverty but also bring about a change in the quality and structure of social life. If not, he thought that the original meaning of economic development could not be accomplished.

The meaning of economic development, which has been a concern of developing countries trying to catch up to the advanced economies, should now be the focus of developed countries as they map out their future. It is now time for developing countries that have pursued quantitative growth to think of achieving qualitative abundance as desirable economic development. We can now revisit the original definition of “development” by investigating what industrialized nations have gained from the pursuit of limitless growth. The problem that Kindleberger brought up forty years ago is useful in answering the question about how to understand the current state of the Japanese economy.

Limitations of the Conventional Perspective

1. The History of Economic Growth Policies

In Japan, economic growth has been considered to be the primary indicator used to examine economic problems, but “economic growth” emerged as a term
used in economics and policy making only after the mid-1950s. Before that, there was no basis for analyzing the economic situation using such an indicator (Takeda 2014). This is not a phenomenon limited to Japan. Derek Bok states:

For all its prominence, however, the primacy of growth as a goal for government is a relatively recent phenomenon. In the United States, growth became the principal aim of economic policy only after World War II, replacing a longstanding preoccupation with taming the business cycle and avoid mass unemployment. As predictions of an immediate postwar recession proved unfounded, doubts about the prospects for continuing prosperity gave way to optimism. (Bok 2010, 64)

Economic growth has been an indispensable indicator when discussing economic issues for more than half a century, and it is now an important goal for any country. The notion that it is desirable to maintain long-term growth is based on the assumption that increased output is the solution to a variety of economic problems and a means of mitigating conflicting interests and social conflicts.

For instance, in the 1930s, job creation was necessary to resolve the severe unemployment problem. This could only be achieved through economic growth. More material wealth resulted in the liberation from poverty and hunger and was recognized as an accomplishment of growth. Economic growth contributed to “expanding the size of the pie” and bringing concrete benefits to the people.

As such experience accumulated, pursuing economic growth became the most important national task. As long as the expansion of the national economy paralleled a rise in living standards, it was easy to rally people around this common goal. Article 25 of the Constitution of Japan, enacted after World War II, states, “All people shall have the right to maintain the minimum standards of wholesome and cultured living.” It was the government's responsibility to ensure the people's rights, a principle drawn from the Weimar Constitution, and it seemed that a high growth rate was the means by which to achieve this. Hence, economic growth created the illusion of being a panacea, and this misconception negatively influenced policy choices.

However, the situation has now changed greatly. As the task of improving people's lives is forgotten and growth itself has become the goal, the problem is getting worse. It is now time for economic growth to abdicate the throne, but it is refusing to do so. We are clinging to the ghost of the past without being able to accept and face the reality of zero growth.

Economic growth is gradually losing its legitimacy because there are no further means to achieve economic growth and the pursuit of economic growth
itself is becoming unrealistic. The various policies that have been implemented until now are reaching their limits. One example is economic stimulus via government expenditure that has been repeatedly implemented during periods of long-term recessions. Despite awareness that fiscal reconstruction was the priority, the Japanese government feared that pressure from businesses would hurt the reputation of the cabinet, leading to regime change. Thus, the government continued its reckless fiscal spending. As a result, other than emphasizing that the policy inhibited further deterioration, no progress was made. Furthermore, Japan has the highest accumulated debt among developed countries. Therefore, implementing policies to create demand through government expenditure is now unrealistic. There have been grave repercussions for the government and the financial sector have continued to prescribe such ineffective medication.

It was financial policy, rather than fiscal policy, that raised expectations. Yet even though three years have passed since the Bank of Japan implemented an exorbitant (ijigen) expansionary monetary policy after the inauguration of the Governor Kuroda Haruhiko, the effect is unclear. Initially, there were varying opinions on the effectiveness of the policy after stock prices rose and the exchange rate of the yen fell. However, as time passed, the dominant view was that the economic improvement was due to overseas factors, and the domestic quantitative easing merely generated mini bubbles without having much impact on the real economy. As Japan was unable to achieve their two-percent inflation target in the spring of 2016, the Bank of Japan implemented the bold measure of introducing negative interest rates. Nevertheless, the domestic real economy did not recover and only exchange rate trends were reflected in stock prices.

Even if stock prices surge and weakened yen creates more favorable conditions for exporters, the Japanese economy is unlikely to improve significantly because a lack of foreign currency is not the problem. Favorable conditions for exporters may lead to microeconomic increases in corporate profits. However, there is no possibility for such increases to lead to macroeconomic expansion of employment or the enhancement of the national economy since the impact of market expansion is not big enough for companies with overcapacity to increase facility investment. In other words, market expansion is not enough for companies to cast off the shackles of “lack of demand.” Therefore, the inflation rate at which Abenomics aims cannot be achieved. Moreover, as a decline in household consumption continues, the average Japanese citizen is going through difficult times.
2. The Emptiness of “A Society in Which All of the Citizens Can Play an Active Role”

The government has been sluggish in dealing with an additional new issue. The decline in the labor force caused by low fertility and aging will lead to the gloomy scenario of a scale-back of the Japanese economy.

Although it is indisputable that low fertility and aging reduce the labor force population, it is a mistake to assume that quality of life will deteriorate for that reason. A decrease in the overall population means a decrease in the labor force as well as a decrease in the dependent population. The view that the increase in the elderly population will lead to a reduction in the workforce is based on the stereotypical premise that the population between fifteen and sixty-five years old are classified as working age (Takeda 2014, ch.5). It is true that the additional supply of young workers decreased as years of education rose during the high-growth period. Moreover, a full-time housewife was considered to be the desirable status of women during this era. Consequently, the working-age population remained low for a long time, accounting for only about half of the population. This number has not varied much. However, if the senior population and women are each given the opportunity to work according to their ability and willingness, Japanese society can make up for the decline in the workforce. If the expansion of the national economy was the goal, then the decline in the workforce may be worrisome. However, if the aim is to maintain the living standard, population decrease and aging are not serious constraining factors.

Yet the Japanese government does not have such calm judgment. It attempts to ward off criticism of the failure of their economic policies by instigating a sense of crisis. The government is implementing hollow countermeasures such as the so-called “three arrows” or “three new arrows,” one after another, in order to stay in power. They are suggesting measures to increase women’s job opportunities, while also stressing that social support is necessary for childbirth and parenting. However, it is unclear how the empty policy goal of creating “a society in which all of the citizens can play an active role” will lead to the improvement of people’s lives (Naikakufu [Cabinet Office, Government of Japan]. Accessed May 4, 2016. http://www.kantei.go.jp/jp/headline/ichikousoukatsuyaku/). Only such slogans and words prevail.

In order for women to have children while working, expansion of childcare facilities is essential. What implication does expansion of childcare facilities and the subsequent increase in employment have on the transformation of economic life? There are two certain advantages, but we should not overlook the implicit problems.
The first advantage is that women willing to work will gain more opportunities. However, we cannot expect those women to have children. It is what women should decide freely. It is said that the slogan, “give birth and raise them,” which was promulgated during World War II, was to increase the number of soldiers to continue the war. Likewise, does the policy for increasing fertility implicit in the slogan, “a society in which all of the citizens can play an active role,” mean to have children so that they can become business warriors to fight in the world economy? The government does not have the right to intervene in one’s own decision-making process. This is an important point. Believing that this is possible is an anachronism.

The second advantage is that as more jobs are created, the “shadow work” of housewives is included in the national account as an added value. Hence, it is advantageous for the government since GDP increases and economic expansion is achieved.

However, for women to work while leaving childcare and other household duties to others does not improve childcare services. The time that mothers spend on childcare is not very different from the time spent by the people in charge of daycare services. Yet, for the latter, more women in the workforce will also create new jobs related to childcare support and lead to economic expansion. Although those who are employed in this industry may think this is desirable, looking at the total capacity of the national economy, this is but a minor offset to the opportunities lost by women entering the workforce. When we consider the actual standard of living for individual working women, while keeping shadow jobs like “housewife” in mind, there is no evidence to affirm that the change has a positive effect. In that sense, GDP is an indicator that can increase without a qualitative change in the standard of living. The policy to promote “a society in which all of the citizens can play an active role” seems to be malicious in that it ties women’s way of life into only one narrative. In other words, the ideal women are working women who engage in childcare activities and receive support. By doing so, it turns the sole ideal of a woman into a reversed figure of a housewife that prevailed during the high growth period.

However, in a desirable future society individuals should be able to map out their lives freely. In that case, we should pursue a life in which working fulltime, being a housewife, or doing both all has equal social value. The image of women promoted by the slogan “a society in which all of the citizens can play an active role” goes against this trend. Expecting all women to achieve work-life balance is a prejudice of the male society that does not respect women.

Moreover, the government’s response to the recent shortage of daycare centers and the long waiting list for vacancies is pitiful. This situation in which
women wanting to achieve work-life balance have to wait to leave their children in a daycare center is a typical example of how the government deprives women of choices with its poor welfare policy. The government’s shameful response to this problem is out of touch with reality and extemporaneous. When voices of complaints were negligible, the government refused to listen to the voices, claiming that it was making sufficient efforts to cope with the issue. However, as complaints continue to spiral out of control, rapidly spreading through social media and news reports, the government is changing its attitude and inventing new measures. They are concerned that social dissatisfaction may have an adverse effect on support for the regime. Rather than recognizing the significance of the issue, the government’s attitude is nothing more than an attempt to recover its popularity after lame and poorly conceived policies. It is clear that the policy promoting women’s social advancement has been implemented without sufficient analysis of the current situation. If this were not the case, then the government would not have taken its expedient measures right after asserting that it is responding appropriately. It is a woman’s right to choose how to live but it is hard to say that the government is presenting equal alternatives. Long-term and sufficient actions are needed to make a policy that expands the possibility of choices. However, the government has presented the aforementioned terrible policies.

3. Opportunistic Deregulation

There is no doubt that one of the remedies to slowing growth was “deregulation” or “reforming regulation.” In order to return to a growth trajectory, an institutional organization that can revitalize the private sector is needed. To this end, it is said that limiting the government’s excessive intervention leads to the expansion of business activities that evoke creativity. For this to happen, we have to expect liberal activities and autonomous adjustments in the market. It is often said that this is a shortcut for achieving an efficient society. In fact, such belief reflects an era in which the idea of neoliberalism prevailed throughout the world.

However, it is hard to say that the political and business leaders in Japan were faithful to this idea. Extemporaneous, self-centered expediency prevailed. Fiscal spending based on Keynesian ideas continued to occur, and hollow pledges were made for election campaigns in the name of raising consumption. In addition, instead of taking responsibility, the government has continuously bailed out bankrupt corporations with relief funds. In this sense, the government has never thoroughly employed a policy framework based on neoliberal ideas. Because the government referred to neoliberalism only as ad
hoc logic, it was not established as a legitimate ideology for a consistent policy framework and eventually came to an end. The fact that the National Railway was privatized during the 1980s with the political intent of dismantling the National Railway Trade Union, which was the most powerful trade union, shows that the policy of deregulation, or the “small government theory,” is a mere pretense that obscures the real political intentions (Takeda 2009, ch.15).

More problematic is that even if the policy framework of deregulation is fully implemented, its effect on the development of the national economy remains ambiguous. No economist or politician in Japan has an accurate answer to this question. Their predictable response is an evasion of responsibility, such as “let the market decide the rest.” We think that the free activity of businesses renders an efficient society through competition in the market, but such a belief is propagated by blind faith in the market mechanism. Policy makers are responsible for explaining how its specific effects will improve the standard of living through any causal relationship. Yet, they never have.

4. Deteriorating Business Management Ability

What is the basis for businesses and government’s claim that reducing corporate tax is effective in restoring corporate vitality? Although it is tempting to be deceived by the word “depression,” according to the Financial Statistics of Corporations (Hōjin kigyō tōkei) of the Ministry of Finance, corporations’ ratios of ordinary profits to sales, while showing some amplitude, have been rising over the 2000s. The claim that no profit has been made is merely a “fiction” (Takeda 2014, 136). In the mid-2000s, profits were far above those of 1989, the peak of the bubble economy. In particular, the tax burden rate on ordinary profits fell sharply, due to the decrease in the corporate tax rate at the end of the 1990s. However, despite the fall of the corporate tax rate, the business sector did not invest actively from the end of the 1990s to the 2000s. Private companies that had gained various degrees of freedom from the government were not willing to take responsibility, other than securing dividends for their stockholders.

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1. In addition, the ordinary profits in the Financial Statistics of Corporations are calculated for companies with more than ten-million yen in capital, and the deficit of some companies is added to the profit of the surplus corporations. Therefore, it should be noted that the tax burden is overestimated because the sum of the profits of the surplus corporations that bear the corporation tax becomes too small.

2. Such corporate behavior was created by the unilateral claim that corporations are the shareholders’, which has become increasingly assertive since the 1990s. However, the social
If this is the reality, how can we justify continuing this kind of measure in the future? Generally speaking, increased profits are utilized for paying off the debt burden. Standard economic textbooks explain the business sector as the source of investment yet it is now seen as the “source of savings,” as savings exceed investment. As a result, household savings and corporate savings support the tremendous amount of government debt. Considering the relation among these three economic players, the reduction of corporate taxes leads to the creation of additional capacity to absorb government bonds in the private financial sector due to the increase in corporate savings. It even raises doubts on whether the purpose is to bring about such a result. In other words, reduction of corporate taxes may be a “conspiracy” of the Ministry of Finance in order to continuously issue government bonds. Since there is a limit to increasing household savings for the future because of employment instability, the increase in corporate savings generates a reasonable flow of funds when government debt increases. However, if we face the fact that this structure is intended to maintain the situation in which debt is increased so as to repay the debt, we find that there are no chances of improving the national economy at all. A more compelling choice would be to reduce the issuance of government bonds without reducing tax, rather than absorbing government bonds with corporate savings.

Moreover, how does the reform of a labor law system that attempts to increase the flexibility of employment influence the national economy? Wage expense determines the competitiveness or profitability of businesses. Therefore, it is argued that wage cuts are required to reinforce competitiveness and restore profitability. In the corporation’s perspective, low wages may be desirable, but low wages are not necessarily desirable for the national economy. It is doubtful whether advocates of employment reform are aware of this self-evident truth.

Furthermore, the consequences will be severe if we fail to distinguish between the needs of the corporations and the national economy, since it is a function of a corporation to produce goods and services that meet social needs and hence create employment; it is not merely a machine that creates profit out of capital. Therefore, it is necessary to reconsider the nature of corporations on the basis of their social function.

3. Regarding the matter, Itō Mitsuharu (2006, 126) pointed out that the household sector, an important contributor to savings, had negative income interest in the 2000s. It does not mean that households have become investors. It means that the financial institutions are exploiting the interests of the household sector by imposing ultra-low rates on savings while securing profits with high interest rates on borrowing. Thus, the savings of households that cannot earn interest enables government bonds to have a low interest rate by playing a role in maintaining the excess of the national debt. It should be noted that households are actually supporting the mass issuance of government bonds through taxation.
cause of severe job insecurity. Wage expense is determined by nominal wages (wages per hour) and labor productivity. Even if the wage doubles, the wage expense does not change if labor productivity doubles. On the other hand, if wages are reduced, wage expense does not decrease because labor productivity deteriorates due to decline in labor motivation. It only fosters worker’s dissatisfaction. In addition, although corporations try to lower the wage expense by cutting down the number of workers and thereby increasing the workload per person, if labor productivity is not so high as to cover the reduced number of workers, then output falls and costs increase. Thus, the attempt to substitute the reduced number of workers with long working hours increases the proportion of extra overtime payment.

Therefore, the claim that lower wages are desirable is only valid if one abandons the notion of increased productivity or in situations in which technological limitations limit productivity growth. In the case of the former, the responsibility of negligent management and its failure to be innovative is transferred to the workers. In such circumstances, the problem is that management ability is weakening. In the latter case, it would be meaningless to
maintain the industry or business. A company should not be allowed to infringe on the rights that have been granted to the workers for the sake of the survival of troubled industries.

Some might say that excessively high wages hamper investment and thereby cause disadvantage in the foreign market. Businesses that are not confident in the quality of their products make such lame excuses. Think about how Made in Japan (goods) and Used in Japan (services) are valued highly in the international market. Attributing the failure of electronics companies, such as the Sharp Corporation, in the international market to high domestic wages is merely a thoughtless remark of people who do not know the roots of competitive business. It also lacks respect to the management efforts of competing companies in neighboring countries.

Also, one may refute the opinion that high wages impede investment by saying that investment does not grow, even when taxes decrease. One may question why investment increases when profit rises as a result of reduction in wages. Hashimoto Jurō (2002) determined that the continuing economic downturn is due to the increase of labor income share in the 1990s, which resulted in the decrease of corporate profits and subsequently, the failure to secure investment funds. He asserted that management and labor (the national organization of management associations and trade unions) need to cooperate to adjust the wage level and form a social consensus for future investment.  

However, this measure is only effective under the condition that business sectors are potentially willing to invest but cannot do so because of limited funds. But, in subsequent developments, companies pessimistic about the future of the Japanese economy were passive about capital investment, even delaying necessary investments, despite their record-high profitability, as shown in figure 1. Therefore, the claim that a reduction in wages is indispensable for securing revenue to expand investment is merely an excuse to reduce wages.

Such a pessimistic prospect is dominant because domestic consumption declined on top of the stagnant investment demand. Claims advocating employment flexibility are neglecting an important point. The people whom companies hire domestically and pay wages to are consumers who buy the companies’ products. As consumers are worse off, purchasing power declines, and therefore exporting is the only way out. It is a natural consequence of the

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4. In order to realize these proposals, social contracts will be required to make wage-reduction agreements with the cooperation of labor and management, and to make aggressive corporate investment mandatory.

5. This relationship reminds us that Marx criticized capitalism during the industrial revolution for its institutional flaws that cause massive deprivation. Those who are critical of the view that the
companies’ deeds that domestic demand is not expanding. If they expect domestic consumers to buy their product, they have to continuously provide opportunities to obtain fair income from domestic employment. This is the companies’ social responsibility and their role in society. There is a high risk that the domestic market will shrink if we only rely on shareholders.

Although individual companies have made reasonable judgments, there are many cases in which these judgments have had negative effects on the national economy. But the responsibility should not be shifted to others through pedantic expressions such as “fallacy of composition.” The fundamental cause is that the management ability of the businesses is insufficient and weakened in areas such as product innovation, increased productivity, and proper management of funds. This phenomenon is exacerbated by the long-term stagnation of the Japanese economy. The most serious malady is that businesses have forgotten how to cope with such issues from the perspective of the national economy.

The Global Environment and Resource Constraints

1. The Crisis of Global Warming

As we have seen, all the measures implemented to achieve economic growth have reached their limits. Then can we not find an effective solution due to defects in the method of setting policy tasks? It is obvious that economic growth is not achievable if policies cannot find their way out of the predicament. Given this fact, we should not continue to pursue that goal and exacerbate the situation.

Therefore, it is necessary to rethink the meaning of economic growth, recalling the aforementioned problem brought up by Kindleberger. At some stage in history, focusing only on the quantitative expansion of the economy may be meaningful in establishing a desirable future for human society. However, it is not a goal that can be pursued continuously over time. Once we pass one stage of economic development, the meaning of the goal is lost. Think about a person’s height or weight. Once we are grown-up, height or weight is no longer a growth index. Weight may continuously increase, but it results in a morbid condition called “obesity.” In order to stay in shape, one should pursue development of the capitalist economy has improved the people's economic well-being, which is in opposition to the Marxist argument, agree with this anachronistic policy suggestion.
human maturation that cannot be measured by quantitative indicators. This is the qualitative side of economic development. In other words, economic growth is merely a partial indicator of economic maturity.

Many people know this intuitively. According to a study on levels of happiness in Japan, even though GDP per capita increased after the 1960s, life satisfaction barely changed. Also, although per capita income multiplied six times from 1958 to 1991, life satisfaction in Japan showed little change. Internationally, it was found that, in general, satisfaction does not increase once per capita income exceeds $10,000 (Frey and Stutzer 2005). People in advanced countries are in the economic maturity stage where they cannot gain additional satisfaction from material wealth.

The issue addressed by Kindleberger reflects an era when most countries in the world were developing and thus development was an important task. Even then, he did not think that people in developing countries would be able to have a happy life by merely pursuing quantitative expansion.

While many regions, mainly in Africa and the Middle East, are still underdeveloped and suffering from poverty and conflict, industrialization is on the way in China and India. This rampant transformation is posing a new problem, more serious than ever before: environmental degradation. If there is no other way for humans to survive in this closed space called the earth, the only way is to cooperate beyond ethnic, religious, and national boundaries to reduce carbon dioxide emissions that bring about global warming. There is no other way to protect the earth.

Nuclear power is the main source of energy on which the Japanese government relied, on the basis of the fact that there are no harmful emissions that contributes to the warming effect. Yet, nuclear power was found to be costly after the accident at the Fukushima Nuclear Power Plant on March 11, 2011, in terms of safety and the handling of radioactive waste. Still, the Japanese government is trying to restart the nuclear reactor, claiming that nuclear power generation is an indispensible choice. Even if these measures secure the energy source temporarily, it is not a system that can be maintained over a long period of time since the construction of a new nuclear power plant will not gain public support. Someday, the costs needed to shut down most of the nuclear power plants and handle the radioactive waste will be huge.

Therefore, it is necessary for developed countries to turn to renewable energy in order to reduce carbon dioxide emissions. However, this implies high energy-costs, taking current technical conditions into account. Yet the costs are required to preserve the global environment and such measures will engage developing countries that are passive in regulating emissions due to their
emphasis on economic growth. The destruction of the environment caused by global warming is progressing rapidly. Economic expansion is no longer a viable option if energy use needs to be reduced to curb emissions. This self-evident fact must be recognized.

2. Supply Constraints of Natural Resources

The environment is not the only important thing. Natural resources have been rapidly depleting over the past two centuries due to global industrialization. Resources made from long-term natural processes such as oil and coal are non-renewable and their development speeds up their depletion. This can be described as a journey without a destination. The absence of a destination means that we cannot predict when we will run out of resources. The more important is that there is no guarantee that we can have access to alternative resources when the depletion occurs.

Let’s think about the amount of resources that developing countries need to maintain economic growth, on the basis of a per capita national income of $10,000, the point at which life satisfaction reaches its limit. According to the International Monetary Fund (IMF), China’s per capita GDP for its 1.36 billion people was $6,747 in 2014. In order to increase the per capita GDP to $10,000, 1.5 times the amount of the current resources would be needed. This corresponds to the resources needed to sustain 660 million Chinese. Because India’s per capita GDP is $1,504, more than six times of the amount of resources would be needed, the equivalent of supporting seven billion Indians. In other words, if the two countries alone cannot provide the amount of resources that are supporting the current world population, a per capita national income of $10,000 cannot be achieved (Takeda 2014, 214). Since suppressing the living conditions of developing countries to a low level runs the risk of escalating political tensions, we must squeeze out enormous amounts of resources from the earth to enable as much economic development as possible. How is it possible?

Optimistic and unrealistic economists state that when such a situation approaches, the price of the scarce resource will surge and people will start using other resources that were previously unavailable. They claim that alternative forms of resources will be discovered, either by rediscovering or redeveloping resources that seemed to be depleted, or by expanding investment in the development of alternative resources. However, although it is probable that such resource development technology will be discovered when needed, there is no

6. Original text from World Economic Outlook Databases (2014).
guarantee that it will actually happen.

Hence, it is inappropriate to pass the difficulties on to the next generations by allowing ourselves to be overly optimistic about the future. So what should we do if we want the majority of people on earth to have a safe and secure life? It is necessary to recognize that this is the task of humankind that we now confront. With this task in front of us, we do not have time to fluctuate between hopes and fears at every change of the stock market or the economy. In order to establish a sustainable economic social system, it is necessary to bear the high costs of energy and recycling as social expenditures. People who are worried about the transfer of excessive government debt to the next generation have to be concerned about the fact that this debt can create inequity between generations. In other words, if the present generation does not bear the costs for maintaining the global environment and conservation of resources, the future generation will have to bear the extraordinary burden. Therefore, the current generation has to come up with countermeasures.

What Efforts Are Needed?

1. Required Increase in Productivity and Its Expected Effects

If there are harsh constraints on the environment and resources, it should be understood that there is a strict limit on the share available to each person. There is also a limit to the natural resources necessary to carry on life. No matter how much material affluence you enjoy, there is always a ceiling or limit. Developed countries have already reached that limit. Therefore, it is necessary to improve economic operations that have focused on quantitative economic expansion.

Developed countries must come to a halt in order to curtail the global economic gap. Even though it would be difficult to lower the current living standard, we should at least stop at our current economic level and strive to reduce the amount of resources necessary to maintain this level. Otherwise, we will not be able to reach a solution. It is impossible for developed countries to seek economic growth in the way they have done so far, such as expanding their economic scale or pursuing material wealth. A global perspective should be utilized and we should not create an endless market for profit.

However, we need to change our way of thinking in order to articulate a vision of the future while assuming zero growth as the normal condition. So let's think of the problem from the perspective of quality of life. Those who discuss
economic growth emphasize the necessity of “increasing productivity” for improving the living standard. It is certainly true. But on what basis is productivity measured and how should the increased productivity be utilized?

Generally, productivity measures how much added value is produced per unit of labor hour. In other words, labor productivity is the fundamental problem. Economists are preoccupied with this prevalent idea because they hold to the widespread beliefs about resource constraints, as what Thomas R. Malthus pointed out by saying that overpopulation and poverty arise from the difference between geometric increase in population and arithmetic growth in food. Malthus noted that limits in the increase of productivity could not handle population growth, given that there is a limited amount of land.

On the other hand, developed countries have enjoyed prosperity by alleviating limitations in food supply through colonization of other countries. While limitations in the food supply have lessened, economic growth progressed at a much faster rate than population growth. As a result, rise in labor wages became a long-term trend. The concession of capital that enabled long-term wage increases, i.e. the institutionalization of improved living conditions for the workers, also allowed the expansion of the economy to be established as a social consensus. However, labor came to be seen as a scarce resource that damaged capital income. In other words, Malthusian limitations were realized in industrialized societies by labor.

This attitude can also be seen in rudimentary models of economic growth. These models are based on a simple and clear equation between the output of value added and the input of labor and capital. Both labor and raw materials are inputs, but there are supply constraints. And as already mentioned, the severity of resource constraints should be emphasized. However, economic theory has been optimistic about other resource restraints besides labor. Yet, the rise of labor productivity has become a more important indicator due to the increasing scarcity of labor.

From the perspective of the workers, however, we come to realize that the pursuit of increasing labor productivity does not immediately improve the quality of life of individuals. It is certainly true that labor leads to increased and secure income and enhances living standards. In fact, the increase in output per unit of labor hour has increased the supply of consumable goods and services, bringing people’s lives closer to prosperity. Nevertheless, linking labor to life satisfaction in this way is nothing but a simple-minded thought. As mentioned before, satisfaction does not increase with the increase in material affluence alone. The maximization of the monetary income of workers is simply introduced to be consistent with the theoretical framework of economists. In
other words, even if the theoretical assumption that laborers try to increase their working hours as much as possible in order to increase their income is a natural premise in economic theory, it cannot be said that people act accordingly. If the theory is unrealistic, then the hypothesis itself must be reexamined. In order to advance this discussion, it is necessary to consider the following points.

First, the daily activity of a person is divided into working and non-working hours. Economists consider non-working hours as leisure time, but this definition is too narrow. First, we presume that wages and work satisfaction are compensation for labor during working hours. On the other hand, the compensation for time outside working hours is measured on the basis of “satisfaction with non-binding voluntary activities.”

Let’s think about how much time a person spends making money and how other times can be used according to this framework. It is said that in pre-modern agricultural societies, time spent making money for survival (working hours) dominated people’s lives due to low productivity. However, such constraints have diminished in industrial societies. This has enabled us to find new ways to spend time outside of work, such as socializing and personal development. It has become impossible to say that working hard for long hours is a normative way of life as it was for the Japanese salarymen who were given the title of “fierce employees” (moretsu shain). Of course, working “fiercely” is an option for those who think that work satisfaction is irreplaceable. If work satisfaction is recognized as remuneration for work hours, this attitude towards work should also be acknowledged. However, that is not the whole story, and it should not be used as justification to impose long-term involuntary labor.

As the phrase work-life balance implies, how we manage our working and non-working hours determines our future. Economic assumptions have neglected the satisfaction that cannot be measured by income. We need to consider such satisfaction and rebuild the framework of economic perception.

Of course, the goal of improving labor productivity should be pursued continuously. This goal is a countermeasure to address Japan’s declining population, but the more important fact is that it shortens the time it takes to earn money. Keynes predicted around 1930 that fifteen hours of work per week would be sufficient in the lifetime of his grandchildren.7 This optimistic calculation was found to be false. It was because workers chose to associate an increase in productivity with an increase in income rather than shortened labor hours. Of course, not all increases in productivity led to income growth. As labor hours decreased throughout history, people first benefitted from doing

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7. For my understanding on labor issues, refer to Takeda (2008b).
extra work to boost their income, then later increasing their amount of leisure time.

What is required at this stage, however, is to change our priority from income growth to fewer working hours. The saved work hours should be used for diverse activities. Since it is necessary to preferentially allocate resources to developing countries, it is important that the increase in labor productivity should save labor time rather than increase production in developed countries. Saved time should be used for a variety of activities where more satisfaction can be obtained. This way, the meaning of setting satisfaction as the compensation for working hours becomes clearer. We use our free time to earn more money rather than take part in other activities like volunteering. We have not taken into account the human labor capacity spent on the activities responding to social demands that cannot be met by profit-making enterprises when calculating labor hours. However, if people have the time to engage in such activities, they may supplement the shortage of socially necessary labor.

It is argued that if economic growth does not take place, society will lose its vitality. However, if people spend more time on voluntary activities, the vitality of the society can be enhanced. It is important to remember what economists such as K. Gunnar Myrdal have consistently pointed out regarding a zero-growth society: the vitality of a sustainable zero-growth economy arises when people’s actions are freed from economic worries.\(^8\) Continuing these unquantifiable activities widens the breadth and satisfaction of our life. People’s talents are not tied to one thing; they are diverse. Saving working hours is meaningful in that it opens up the path to realizing the talent and ambition that was squandered on earning money. The reason that these aspects are not evaluated in economic formulas is because most of the activities are classified as “consumption” and therefore their contribution to economic growth is not recognized. Again, just as shadow work is excluded from the national account calculation, there are limitations to assessing the quality of people’s lives when such activities are not measured. Improvements must be made.

Supply constraints are increasing not only for labor resources but also natural resources, so we must also seek to increase productivity for materials. This can be also seen as an improvement in the unit consumption. In other words, it is necessary to reduce the loss of raw materials by improving the ratio of input and output and to make recycling a systematic norm. We should also minimize the actual resource usage, except for recycled resources. In order to do

\(^8\) Besides Keynes, Boulding and Mishan (1974) offered a relatively early review of the well-known John Stuart Mill’s stationary state.
so, materials should be developed with the potential for reuse in mind from the design stage of the product. Without resource saving measures, it is impossible to maintain the present standard of living due to resource supply constraints, and it is inevitable that the situation will gradually deteriorate.

In Japan, recycling wastepaper and plastic bottles has continued for more than twenty years. In addition, recycling automobiles and home appliances has become mandatory, and bearing the expenses for this process has also become necessary. Although slow, research on product design is also progressing. These are examples of legal actions taken to solve problems that are likely to be neglected by the market mechanism. And the need for such measures means that it is impossible to construct a desirable future society simply by increasing the autonomy of enterprises. We need to make efforts to develop a common perception on the desirability of bearing the cost of maintaining the current economic structure and to develop appropriate policy measures.

Both labor and resources invested in economic activities will be saved. Consequently, the main trend of economic activity will be different from the preexisting operation of business management, which was mainly concerned with labor-focused efforts to improve productivity and save labor costs. Technological advancement is essential to such efforts. Conservation of energy, mineral resources, and the environment have to be mitigated through technical solutions. It is the only way to guarantee a foundation for a more prosperous life for the world’s ever-growing population. Investment for achieving technological progress should be made constantly, and funding should be poured into basic technological research that forms the basis of such progress. As we cannot realize these through the market, we need systematical measures such as injecting public funds to cope with these issues.

2. The Role of Enterprises, Markets, and the Government

It is evident from previous discussions that the public sector should play a big role in discussing the future of economic societies. However, this does not mean that we are planning for a “big government” immediately. We should think about the responsibilities of companies and what coordinating role the market plays.

Given the production organization of goods and services, enterprises are superior to any other organization in that they have accumulated knowledge and experience over the course of history and therefore have deep knowledge on a specific field of production.

This should be respected as a characteristic of corporations. As the economist
Thorstein Veblen pointed out about a century ago, corporate organizations are distinguished by their pursuit of technical rationality. Yet, he also emphasized the limitations in the manifestation of technical rationality as it underpins the purpose of producing profits. This point is still noteworthy.

Profit-making enterprises have been leaders in wealth creation, as they are “high-speed engines” that contribute to the expansion of the economy. However, as already mentioned, since they are for-profit, they shifted the social burden that the business should bear as producers to others in the form of social costs. Pollution and waste evidently show the negative outcomes of such corporate behavior. Therefore, unrestricted pursuit of profits must be regulated. Once falsification of a product’s quality is revealed, it provides the opportunity to eliminate the business from the market as consumers reject it. This is one of the roles of the market, but expecting the market to play such a role while not imposing ex-ante regulations is the same as abandoning the victims who suffered from a company’s falsification, stating that it is an inevitable sacrifice.

Of course, that is not fair. There have been a series of incidents involving fraudulent activities in order to pursue short-term profits and misrepresentation of account books to provide inaccurate information to investors. Looking at these cases, it is indisputable that strong monitoring and regulation is needed for business management. Even if we restrict the freedom of corporate actions, good companies that adhere to legal regulations will not be restricted by these rules, so such a counterargument cannot be logically established.

Corruption takes place because companies pursue growth in an environment where high growth for individual companies is difficult. Aberrant behavior is the result of this obsession. Therefore, there is one more thing to consider regarding the problem of profit-making enterprises. One must pay attention to the production activities that can be accomplished by eliminating the purpose of profit making. It is then possible to emphasize the company’s role as a production organization and the subsequent increase in the supply of goods and services.

Nonprofit organizations that focus on temporary volunteer work, such as disaster relief measures, are also increasing their presence in Japan (Takeda 2008). The social role of a production organization is the same, whether it is for profit or not. The fund provider may derive a profit from the sympathy and satisfaction of the activity rather than monetary gains. If one can acknowledge satisfaction as a compensation of work, the returns to the fund provider is not a crucial difference. You only have to change the perception that money alone is important. Distinguishing between for-profit and non-profit companies is not meaningful for maintaining social cohesion, guaranteeing our survival, or
improving the quality of life.

Expanding non-profit organizations for meeting social needs leads to the development of a system capable of responding to demands that could not be met by the profit-making enterprises. In the conventional way of thinking, the services provided by non-profit organizations include public services that the government is expected to offer since it is difficult for non-profit organizations to earn money. However, restoring the role of the government is not an appropriate countermeasure at the moment, owing to the restricted amount of financial resources of the government. It is important, of course, to provide unified public services at the national level to ensure a minimum standard of living. Yet, not only is the central government having problems in securing financial resources, but it also faces the situation where it cannot respond to the diverse needs of the people with the uniform services that it provides. Therefore, there is an increasing need to meet these demands by making a connection between shrewd organizations and local government policies. In particular, since services are being produced and consumed at the same time, they cannot be produced at an advantageous production base and transported to the consumers for consumption like commodities.

Utilizing such an organization not only fulfills social needs but also has secondary effects. The organization will create employment opportunities and give local people the chance to volunteer to provide social services in anticipation of rewards other than monetary income. As stated earlier, it can be one of the most important alternative uses of time other than for-profit labor. Traditionally in Japan, it is said that the word “work” implies making the person next to you comfortable. Expanding “work,” which even the Japanese almost forgot, will lead to an enhancement of social support and the expansion of the safety net for the people’s survival.

Along with businesses, the market mechanism will also play an important role. Market mechanism is a system in which the market can have a considerable effect on the realization of efficient resource allocation, once precise price information is gathered. No other means have been found to replace it. However, the primary condition for this market mechanism seen from the perspective of quality of life is that supply will continue at a stable price. In this regard, the current inflation-targeting policy of Abenomics is inappropriate. The central bank should return to its original role of stabilizing the currency value. Once prices are stabilized, the anxiety about the future is reduced, allowing people to behave more freely (without adherence to money) without increasing working hours to earn more income. In reality, however, these conditions are not satisfied due to increased anxiety about the future of the social security
system and pensions. Consequently, strengthening the social security system and ensuring market stability at the national level are indispensable to improving the quality of life.

Just as regulation is needed for businesses, market regulation is also crucial. Sudden fluctuations in speculative prices can lead to an economic failure that endangers the national stability. Therefore it is essential to regulate speculative market behavior. This behavior should be suppressed by imposing high taxation on capital gains. Investors may claim that the market may lose its vitality, but such speculative behavior creates only a handful of wealthy people, increases income inequality, and impairs financial stability.

Thus, the claim that it should be left to the market has a weak basis. This claim emphasizes the effectiveness of market mechanisms. However, if the mechanism is complete, there will be no room for speculative activities and financial asset holders cannot expect to earn more than the average interest rate. Speculators abuse the fact that the market is incomplete and vulnerable to change and hope for a windfall. Leaving room for such activities will only undermine the trust of the market system as an adjustment mechanism. Speculators are digging into the imperfections inherent in the current economic system. It is the same situation as when a person who entered an unlocked house to steal someone else’s belongings says that the homeowner is to blame for not locking the door.

We need to regulate market mechanisms not only to suppress speculative activities but also to adjust the income gap caused by competition. The means to achieve this are diverse, ranging from taxation to social benefits, and the role of the government’s economic policy is also important. Such an adjustment is necessary not only to solve domestic problems, but also international problems. Otherwise, the world will be unstable and constant regional disputes will spread. To avoid indiscriminate wars, it is crucial to divide the fruit of economic expansion as fairly as possible to prevent the enlargement of economic disparity.9

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9. As is well known, indicators like GDP that measure economic growth also increase in times of instability. For example, increasing military expenditures or armed intervention to prepare for regional disputes expands the country's economy. In addition, investments in environmental protection measures and medical expenditures following the spread of infectious diseases boost GDP and economic growth.
Conclusion: Japan as “The Future of the Developed Countries”

Developed countries should enrich our lives more humanely by using resources more efficiently on the assumption that “zero growth” continues. If we accept “zero growth,” Japan’s economic downturn, which has been going on for more than twenty years, can be seen in a different light. Japan is a pioneering country of the “zero-growth” era, which all developed countries will someday encounter. In other words, Japan is at the forefront of advanced economies.

Politicians, economists, and the mass media are continuing the negative discourse of the era in which Japanese young people were born and raised, the so-called “lost decade” or “lost two decades.” It is often described as if this period is meaningless and the time when the country was supposed to experience growth has passed in vain. But these are nothing but phrases that show the arrogance of economic growth supremacy. As “zero growth” persists in Japan, the era of pursuing economic growth is coming to an end. This means that economic growth supremacy has become an anachronism. What Japan “lost” is not time, but the foundation that supported the bygone era of economic growth.

Our task is to build an economic society where we can pursue true economic development, free from the spell of economic growth. We must go back to the starting point of economic development and redefine the “lost” decades as a process of seeking economic and social systems for the next era, and then verify the contents of our trial and error.

As we have discussed, we must accept that we are strongly constrained by environmental resources and commit to technological progress and institutional research to mitigate these constraints. By reducing the amount of time spent making money and using more time on voluntary and creative activities, we can begin to fulfill social demands. It is important for each person to be able to choose how he or she will use their time, but for this to be possible, diverse institutional devices are needed. The future task is to build them one by one. Where our future is headed is up to our choice.

It is worth recalling the fact that Kindleberger emphasized the importance of creating an institutional framework to coordinate various interests in political decision-making, i.e. “democratization,” as one of the important factors of economic development. In mature economic societies with policy choices and institutional designs based on democratic decisions, each person can pursue individuality and other individuals can respect such individuality. That is the ideal future of an economic society that can be labeled a “stationary state” (teijō jōtai).
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