

# Creation of a Next-generation Society and Future of Capitalism—Responding to the progress of digitalization while feeling a sense of crisis

## 1 Recognition of issues

- Recently, there has been a rise in anti-globalism, national particularism, and populism mainly in Western developed countries, including the U.K.'s decision to leave the EU and the birth of the Trump administration in the U.S. Behind these movements, there is increasing skepticism about modern capitalism, which has widened and fixed economic disparity. Meanwhile, some emerging countries are rapidly increasing their international competitiveness by adopting national capitalism and working on strategic efforts to create innovation through cooperation between the public and private sectors.
- Under these circumstances, Japan is facing a crisis situation that may lead to a further decrease in international competitiveness in the future. Specifically, various disparities have been exacerbated, and rigid social systems and practices have interrupted the creation of innovation and the spread of technology.
- In the rapidly changing global economy due to accelerating globalization and digitalization, conventional capitalism is going to reach a breaking point. In this situation, we, the Future of Capitalism Committee, propose the direction to be pursued by Japan and measures to be taken by the national government and companies in terms of the appropriate form of capitalism.

## 2 Global economy and various types of capitalism

### (1) Changes in capitalism and globalization

- Modern capitalism was established as a result of the Industrial Revolution in the U.K. It has developed, changing its nature in association with the spread of mass production techniques and the transformation of industrial relations triggered by the Great Depression in the U.S. in the early 20th century.
- The Bretton Woods system, which was established after WWII to provide a stable supply of funds on a global scale, collapsed due to a shift in the floating rate system in 1973. As the relaxation of financial regulation progressed mainly in Western countries in the 1980s, international financial markets expanded rapidly. From the 21st century, financial globalization progressed significantly in developed countries as a result of increasing speculation in capital markets. This led to a financial crisis and a debt crisis that rippled around the world.
- After these changes in capitalism, attention is currently focused on the various issues of a capitalist economy.

### (2) Various types of capitalism

Global Capitalism		
The relaxation of financial regulation promotes economic freedom, accelerating the flow of people, things, and funds across the world. This enables capitalism to expand globally beyond national borders.		
Anglo-Saxon capitalism	Rhine capitalism	State capitalism
<ul style="list-style-type: none"> <li>Market-based capitalism that places priority on maximizing the profit of shareholders in the short term</li> </ul>	<ul style="list-style-type: none"> <li>Emphasizing coordination with various stakeholders outside markets</li> </ul>	<ul style="list-style-type: none"> <li>Realizing economic growth under the initiative of the national government through a strong connection between politics and the economy</li> </ul>

### (3) Characteristics of capitalism in Japan

- The uniqueness of capitalism in Japan, which has been created through historical changes, is pointed out.
- In Japan, the characteristics of the wartime economic system, which was formed during WWII, remained unchanged after the war. This enabled Japan to achieve high economic growth.
- Meanwhile, various issues were identified in the course of the formation of global capitalism in the 1990s.

### (4) Movements based on recent environmental changes

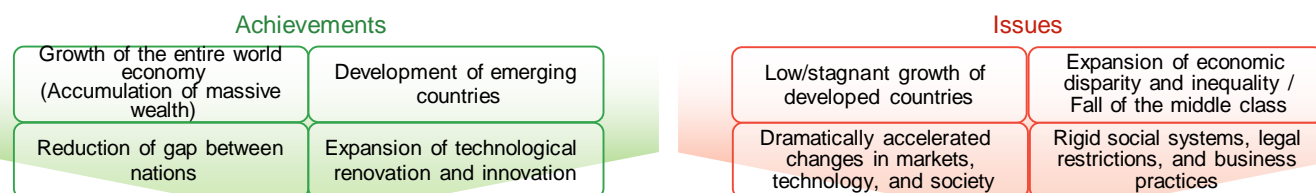
- Some people insist that capitalism should be modified, taking into account the progress of digitalization and social issues. The modification of capitalism, which is proposed from the perspective of global trends or from perspectives unique to Japan, is attracting attention as new trends in the economic system.



## 3 Achievements and issues of global capitalism—How to address new trends in capitalism

### What global capitalism has brought us

- The achievements and issues, which have been brought by global capitalism, which is affecting the world economy, are shown below. New trends have emerged from different perspectives, and it is questioned how Japan can address these movements.



The progress of digitalization has caused the birth of digital capitalism. In a situation where technological singularity is expected to occur in the long run, movement toward digitalization may expand rapidly around the world and dramatically change capitalism itself.

The expansion of economic disparity and the fall of the middle class have boosted support for national particularism and protectionism and have led to further focus on policy management that is against the trend of globalization. This has caused conflict between conventional global capitalism and national particularism.

There has been a relative increase in the influence of countries that have achieved dramatic economic growth by adopting national capitalism and working on strategic efforts to create innovation through cooperation between the public and private sectors. Meanwhile, the growth of developed countries that have adopted global capitalism has remained low or stagnant. Under these circumstances, there has been an increase in conflict and competition for dominance between national capitalism and global capitalism.

## 4 Proposals

### How should the national government and companies address new trends brought by global capitalism?

Four questions to unlock the future of capitalism	
(1)	What value should be emphasized to modify global capitalism?
(2)	What factors of the unique corporate and social culture, which has been cultivated in Japan, should be used to contribute to the world?
(3)	How should the national government respond to various changes that are taking place at a dramatic speed?
(4)	How should Japan address the existing economic disparity, which is behind populism and national particularism?

**Proposal 1** (Companies, National government)

Adhere to capitalism based on fundamental values, including respect for freedom, democracy, and human rights and the rule of law, and propose it to the world.

- Under the banner of national particularism, the U.S., which has led the world economy, is committed to competing with China for dominance. In this situation, Japan has to take the initiative in showing the world its intention to stick to fundamental values.
- Under the circumstances where digital capitalism is increasing its presence, the national government and the private sector need to devote all their energies, from their respective positions, to establish an economic system for a new era based on fundamental values.
- It is expected that Japan will play a stronger leadership role in the G20 Summit to be held in Osaka in June 2019 on behalf of nations that focus on fundamental values.

**Proposal 2** (Companies)

Companies should identify signs of changes and implement dynamic management, taking advantage of Japanese-style business management.

- Like the Omi merchants who ran their businesses in the spirit of *sanpo-yoshi*, which meant "good for the buyer, good for the seller, and good for society," companies from the Kansai region have valued a business approach aimed at pursuing both profits and social contribution. Their business approach is still effective in today's society. Meanwhile, it is important for companies to go back to a long-term perspective, which is an advantage of Japanese-style business management, in order to respond to new trends in capitalism. It is also crucial to actively promote efforts to achieve SDGs through corporate activities and to see it as their business to resolve social issues to contribute to diverse stakeholders. Through these activities, they should redefine and implement a new version of the principles of *sanpo-yoshi* that fits with the times.
- Promote efforts for start-ups to resolve social issues, including creating a venture ecosystem that supports innovation.
- Facilitate the active use of technology to quickly identify signs of changes in a turbulent economy and implement dynamic business management. To realize this, it is necessary to develop human resources that can adapt to the new era
- Show the world how a sustainable society and a sustainable economic system should be and what dynamic business management is like at Expo 2025 Osaka-Kansai to be held in 2025.

**Proposal 3** (National government)

The national government should urgently implement policies that contribute to deepening corporate governance reforms, using digital technology, and creating innovation.

- To realize Japanese-style business management, it is necessary to review systems that may promote a focus on short-term profits and shareholder profits, including systems that make it obligatory to release quarterly results and place an excessive focus on specific managerial indicators, such as ROE. It is also important to advance truly substantial corporate governance reforms.
- The national government should speedily develop an environment that supports companies' active efforts to develop technology and create innovation so that Japan will not fail to follow global trends, where digital capitalism is expanding at a dramatic pace. It is also important to create an educational system and environment that responds to digitalization. Through these efforts, it is necessary to increase competitiveness between countries.
- It is necessary to accelerate international cooperation, including the establishment of a system for the Data Free Flow with Trust, which is proposed by the national government, using the opportunity of the G20 Summit.

**Proposal 4** (Companies, National government)

Advance efforts to reduce excessive economic disparity.

- Regarding various disparities in Japan, the national government and companies should advance continuous and multiple efforts to reduce excessive disparities in the policy fields of employment, labor, medical care, social security, education, and regional revitalization.
- In particular, companies should have a strong awareness of disparity issues, while working to deepen the principles of *sanpo-yoshi*. They should also further promote efforts, through their business activities, to resolve social issues that may become factors for disparity.

## 5 Conclusion

- Although capitalism has thus far developed through repeated modification in accordance with the times, the progress of digitalization requires further change to capitalism. In this situation, it is necessary to make society-wide efforts to respond to changes in capitalism, keeping in mind "dataism," which is foreseen to arrive in due course.
- The economy is highly influenced by the social system. The progress of digitalization has promoted the diversification of ways to obtain and disseminate information and participate in politics and of individual values as well as the destabilization of politics. To design a desirable economic system, we need to deepen discussions on the appropriate form of democracy on a nation-wide basis in the future.