

Conference Report

Fiscal Policy Challenges in Germany, Japan, and the United States

On March 23, at Rikkyo University's Tachikawa Hall, FES and Rikkyo University's Department of Economics hosted an event titled "Politics and Policy Challenges in Japan, Sweden and the United States." Sven Steinmo, Professor and Chair in Public Policy and Political Economy at the esteemed European University Institute, gave a provoking keynote speech on these matters. Professor Steinmo's "The Evolution of Modern States: Sweden, Japan, and the United States" is to be published in July by Cambridge University Press, and has already been nominated for the Stein Rokkan Prize in Social Science. Professor Steinmo described his comparative research findings, particularly how they illuminate Japan's current policy dilemmas. In response to Steinmo's observations, we had equally thought-provoking comments from Adachi Masamichi (Senior Economist, JPMorgan Securities), Gregory Noble (Professor, University of Tokyo), Martin Schulz (Research Fellow, Fujitsu Research Institute), and Ikegami Takehiko (Professor, Rikkyo University). The comments were then followed by a panel discussion including the keynote speaker and discussants. Finally, we took a full half-hour of questions and observations from the floor.

Steinmo stressed in his keynote speech that much of what we have regarded as common sense is wrong. There is, for example, no "race to the bottom," as taxes and spending levels among the advanced industrial countries have not declined. So the long-dominant idea that globalization would see institutional diversity ground down into a "flat earth" has turned out to be wrong. Steinmo noted that just as living creatures adapt to global warming and other environmental stressors in different ways, so do political systems respond and adapt in disparate ways to challenges.

As Steinmo noted, this is all just common sense based on irrefutable evidence from empirical reality. He observed that his argument should seem obvious, because it in fact is. The methodological problem, simply stated, is ideology and reductionism. In particular, political science is based on Newtonian physics rather than the evolutionary perspectives that ought to be at its core.

Steinmo then showed how his argument works by depicting the historical narratives of the three cases. He emphasized that their political structures are complex, adaptive systems. He then went on to outline the initial conditions under which these systems have developed over the last century and a half. He showed that by adopting an evolutionary perspective we can understand the initial conditions that give rise to institutions as well as the way in which they adapt to external reality. Concerning Japan, Steinmo argued that the country became the world's second largest and most productive economy in less than forty years after defeat in the world war. He dubbed its system a hybrid of liberal capitalist and democratic institutions adapted to traditional forms of authority and hierarchy. High levels of inter-group social trust and deference to authority facilitated the

evolution of a highly cooperative and competitive political economy. In the wake of the bubble economy years, Japan has tried to copy many neoliberal policies, but has not been able to adapt to the normative or social changes that are concomitants of these ideas. Japan remains a remarkably traditional society in terms of social and gender relations for example, but is abandoning its social-welfare institutions. The result, he lamented, is an awkward fit in which Japan is struggling to adapt. Steinmo warned that social, demographic, and economic pressures are impinging on the Japanese system in profound ways: The central bureaucracy is in retreat, confidence in the public sector is almost absent, social values are modernizing, and Japan's aging society is creating massive pressures for increases in social spending and the tax increases they require. Its democratic institutions are also weak and under great stress. Steinmo suggested that Japan needs to get past its obsession with the American model, itself a unique product of initial conditions and responses - and evolve more productive approaches suitable to its own circumstances.

In response to Sven's arguments, Greg Noble expressed his appreciation for the potential opening of a door into new research agenda. But at the same time, he was also careful to caution that the perspective needs to be measured against the extant approaches in political science. The reigning model in political science focuses on isolating dependent and independent variables, and testing their relationships. It especially centres on how changes in electoral systems produce shifts in public policy. Many observers regard this modeling-centered toolkit as extremely reductionist. But because it is the reigning approach, new arguments need to be measured against it. Noble's concern was that the historical-narrative approach emphasized by Steinmo may not offer a clear and comparative research agenda. That is the approach is narrative rather than one that seeks to highlight the central variables at work across a number of cases, and then test them as well as offer predictions on the basis of them.

Martin Schulz took on Steinmo's arguments from an economist's perspective. He argued that economists have always been waiting for the political scientists to come up with arguments that match those he characterized as being common sense in economics. He depicted economics as asserting that globalization is a race to the top, in which there is no one model that is going to become dominant. Using the example of firms that become market leaders by being distinctive, such as Apple in computers, he stressed that the evolution and differentiation are in fact common sense to economists. But where he differed with Steinmo is in the role of the public sector in crafting the evolutionary model. For Schulz, the market should be freed up as much as possible to allow the political economy to adapt to the constraints and opportunities in the larger environment.

Ikegami's comments focused on the particular case of the Japanese tax system. He noted that the Japanese corporate tax is not in fact as high as many accounts suggest. He also sketched the background of the contemporary shift in politics within Japan, seeing the LDP displaced by the Democratic Party. Hence the LDP's emphasis on privatizing the public sector as much as possible has been displaced by an effort to democratize the public sector by reducing the scope of control of the bureaucracy. He noted that Japan

has an enormously high debt load and that if interest rates increase this will result in an ever increasing portion of the budget being devoted to paying down debt public-sector debt. Whether the democratization of the public sector can allow for an increase in taxes and other measures to grow a fiscally sustainable economy and public sector remains to be seen.

Adachi's comments focused on asking what lessons we might learn from Steinmo's work. Adachi noted that his role as an executive at JP Morgan brings him constantly in contact with foreign investors who find it very difficult to understand peculiarities of the Japanese political economy. He wondered if there were some indications within Steinmo's work that fiscally stable policies are possible.

Unusual for most events in Japan this event also included ample time for questions from the audience.

This was a deliberate decision of the participants, who wanted to hear feedback from such a well-informed group of observers. They were indeed many interesting questions, centering on what is to be done as well as suggesting that there are various avenues that ought to be emphasized. As for the latter, Iida Tetsunari of the renewable energy Association emphasized the role of renewables in the future evolution of the Japanese political economy.

Steinmo responded with surprise that the Germans and the Danes are in fact ahead of Japan on this critical issue whereas Japan has such few resources. One would expect that Japan is the global leader in renewable energies.