

Alliance for the 21st Century

The Final Report
of the U.S.–Japan 21st Century Committee

Edited by Eri G. Hirano and William Piez

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Notes

Thomas Foley resigned as Vice Chairman of the Committee upon appointment as U.S. Ambassador to Japan.

For the fourth meeting in May 1998 in Kyoto, Japan, Ronald J. Anderson, Chairman of AIG Japan & Korea, attended in place of Lester Alberthal, and Ambassador Ernest Preeg, William M. Scholl Chair in International Business at CSIS, attended in place of Robert Hormats.

Urban Lehner, Executive Editor of the *Asia Wall Street Journal*, attended in place of Karen Elliot House.

Masaru Hayami resigned from the Committee upon his appointment as Governor of the Bank of Japan.

Schedule of the Committee

First Conference

Date: December 6–8, 1996
Place: Wye Plantation
Queenstown, Maryland, U.S.A.
Theme: Basic discussion of the issues concerning economy, security, and culture and society

Second Conference

Date: May 25–36, 1997
Place: Hotel Mt. Fuji
Yamanashi, Japan
Theme: Market and global economy; economic reforms and deregulation

Third Conference

Date: December 12–14, 1997
Place: The George Bush Presidential Library
College Station, Texas, U.S.A.
Theme: Security, energy and the environment, and finance

Fourth Conference

Date: May 16–18, 1998
Place: Kyoto International Conference Hall
Kyoto, Japan
Theme: Education and capitalism in the twenty-first century

The U.S.–Japan 21st Century Committee Final Report

The U.S.–Japan 21st Century Committee, a private-sector initiative established by leading citizens of both countries, was formed two years ago for the express purpose of improving the prospects for cooperation between the United States and Japan in the twenty-first century. The Committee sponsored preparatory studies on agenda topics and, based on this work and on discussions of the members at its four meetings held over a two-year period, agreed on findings and recommendations for future action. This publication includes the Committee's recommendations and the most important supporting papers the Committee considered.

Highlights of Discussions

In its four meetings, the U.S.–Japan 21st Century Committee reviewed the full range of issues in the U.S.–Japan relationship. The deliberations were conducted on a shared understanding that a strong, healthy bilateral relationship was essential to the maintenance of peace and the expansion of prosperity in the Asia-Pacific region. The Committee concluded that, although the relationship was fundamentally sound, there were issues with which each country should deal in order to strengthen even more the prospects for constructive cooperation.

At its first meeting in December 1996, the Committee established a work program for successive sessions. Members agreed at the outset that, instead of simply criticizing the shortcomings of the other side, each side would examine its own situation and develop recommendations for improvement.

At the second meeting in May 1997, a review of economic, trade, and financial issues revealed that both sides needed to do more to improve the efficiency of their economies. Economic strength in both countries, both sides agreed, was essential to a healthy relationship that also could provide leadership in the global effort to provide security and prosperity to people throughout East Asia and the world. Both sides acknowledged that the United States had made a good deal of progress in bringing its fiscal deficit under control, but that an increase in household savings and the strengthening of entitlement programs was essential. The Committee noted that Japan had made much progress in opening and deregulating its markets, but that further work was necessary to realize the full potential of its economy. Taking note of the spread of financial crisis in East Asia, the Committee urged Japan to move more vigorously to cope with its severe banking and financial problems.

The third meeting in December 1997 examined security cooperation between the two countries and found it to be generally good. The Mutual Security Treaty and the forward deployment in Japan of U.S. land, sea, and air forces were key elements in bringing the Cold War to a successful conclusion and will continue to serve as stabilizing influences in post-Cold War Asia. Committee members judged military-to-military cooperation to be excellent and determined that the implementation of the new guidelines would make cooperation even more effective in an emergency. Japan's generous host-country support played a major role in permitting U.S. forces to carry out their mission. The Committee noted however, that every effort should be made to minimize the impact of U.S. forces' operations on Japanese citizens living near U.S. military facilities.

At the fourth meeting in May 1998, members addressed education issues and concluded that both the United States and Japan were failing to prepare their young people for the challenges of the twenty-first century. Although higher education in the United States is, generally speaking, the best in the world, K-12 education is uneven and failing in its duty of providing all youngsters with the basic skills to become productive members of society. The Committee noted that, unless the United States and Japan identify problems at an early age, it will become impossible to provide remedies. Even though Japanese youngsters generally performed much better in the basics, the Committee felt that rigidities in the system stifled creativity. Both sides noted that changes in society had created serious problems in developing quality, dedicated teachers. The Committee decided to examine the possibility of establishing an experimental school that would draw on the strengths of both countries to develop more effective teaching methods.

In a highly perceptive discussion of the shape of capitalism in the twenty-first century, members of the Committee noted that profound changes in the production of goods and services were taking place: Openness will be the rule, with capital and talent flowing to those places in which they are best treated. Governments increasingly will keep their hands off commerce in order to permit markets to operate at maximum efficiency. The marketplace will demand increasingly accurate, timely, and detailed information; this demand will serve to raise ethical standards. Above all, mental skills will become even more important, placing ever more pressure on societies to provide constantly improving education.

Final Declaration

The U.S.–Japan 21st Century Committee, which was established as a bilateral private-sector forum for dialogue and the consideration of policy proposals, has carried on an exchange of views over the past two years in a spirit of mutual esteem and cooperation, each side recognizing the other's strengths and traditions, and each taking note of those things in their country that are in need of improvement. For more than two years, the Committee has considered fully security, economic, trade, financial, and education issues. During this time, the global situation has changed significantly. For example, Asia has been beset by a financial crisis, and exchange rates in the region have shifted dramatically.

The Committee took up all these issues in accordance with its original commitment to consider the overall U.S.–Japan relationship in a new light, establishing a new and stronger foundation for managing both long-term questions and immediate critical situations. Highlights of education and capitalism discussions are also available. The Committee's dialogue was conducted in an atmosphere of mutual commitment to solving problems, both immediate and longer-term. As a result of this dialogue, the Committee has reached the following conclusions.

1. As the world stands on the brink of a new century—which is expected to be an era of mega-competition—the United States and Japan, which together account for 40 percent of global industrial production, bear major responsibility for the prosperity, peace, and progress of all humankind. The cultural and historical differences that exist between the two countries actually can act as a source of strength to both countries as they work in concert toward the establishment of values and an international framework appropriate to the new stage of historical development that humanity is about to enter.
2. The United States and Japan share fundamental values based on the ideals of a free society, democracy, and the market economy, and should cooperate to ensure the spread of these values throughout the world.
3. The twentieth century has been a time of growth, progress, and increased international interaction, but it has also seen much discord and destruction. Japan and the United States must strive together to uphold the worth of every human being, to respect the diverse cultures of all nationalities, and to ensure that the natural environment and the planet's capacity for regeneration are preserved.
4. The U.S.–Japan alliance is the world's most important bilateral relationship, the solidity of which is of vital importance to the stability and prosperity of the Asia-Pacific region and, ultimately, the entire globe. Thus, it is essential to maintain firmly the U.S.–Japan security system, which is the foundation of the relationship. Japan never again must project military power, but it should work with the United States in efforts to maintain world peace. For its part, the United States needs to be more consistent in its recognition of the importance and consequences of its relationship with Japan, seeking in every way to consult and cooperate with Japan in meeting our joint responsibilities.
5. Japanese society is presently facing serious structural problems. The key to overcoming these problems and, in the process, revitalizing Japan's economy

is to sustain a vision of structural social reform that gives full scope to the initiative and creativity of each member of Japanese society. If the latent abilities of the Japanese are to be realized in full, Japan must work in earnest toward social reforms that will dismantle the existing hierarchical social system under bureaucratic control, a system that dates from the Meiji Period (1868–1912) and is characteristic of developing states. These reforms should include the realization of small and decentralized government, introduction of a taxation system of a flat type, and full deregulation and liberalization of education.

6. For many years, Japan has promoted its industrial development by means of bureaucratic control and a system of coordination within industries. Having now entered a new developmental stage, however, in which the creation and supply of a diversity of knowledge-intensive goods and services will be the basis for economic development, Japan must base its actions on the recognition that restrictions on market entry or trade are harmful in any sector of the economy. Japan fully and immediately should implement free-market principles, ensure complete transparency, and open its markets to both domestic and foreign suppliers. Increased competition and the resulting rationalization and efficiency will benefit Japanese consumers.
7. Recent experience in the United States has demonstrated the merits of a market economy with minimum government regulation through free competition and technological progress; however, despite extraordinary gains made by a substantial part of the population, the continuing inability of the bottom quintile to participate fully in that growth remains a concern. The United States has made substantial gains in reducing fiscal deficits, but much remains to be done in reforming tax, regulatory, and entitlement policies and in increasing household savings.
8. The intrinsic aims of economic activity must be to support human life; preserve the environment; and enable future generations to lead better lives. Private endeavor, rather than government action, should play a key role in mobilizing the individual energy, knowledge, and talent that will undergird the realization of the full potential of a free society and market economy. Furthermore, individuals living in a free society must act in a manner consistent with social justice and love of one's neighbor, based on a spirit of moderation and personal integrity and responsibility.
9. There was strong agreement that access to and improvement of education are vital to the futures of both the United States and Japan. There likewise was agreement that there were serious and fundamental inadequacies in the education systems of both countries that must be remedied as the new century dawns. Such reforms deserve the highest priority. Recommendations were made that exchanges of teachers and students between the United States and Japan be expanded. In addition, it was suggested that the private sectors of Japan and the United States jointly should establish and operate two experimental schools, one in the United States and one in Japan. These schools would seek to combine the educational strengths of both countries and endeavor to provide students with the necessary scholastic ability, creativity, international perspective, and ethical qualities. Individuals from countries other

than the United States and Japan also would be able to participate.

10. Both the United States and Japan have much to do in recognizing and developing the human potential of all their people, including women, the elderly, the poor, those with disabilities, and minorities. In the twenty-first century, no task should have higher priority than joint efforts to enable all U.S. and Japanese citizens to reach their own highest capabilities. Cooperation between the two countries in seeking these solutions can help each in improving the intended results.
11. The two countries must continue to work in concert, not only in the spheres of economic and security affairs but also in building the global information-oriented society, in the development and effective use of resources and technology, in the protection of the global environment, in aid to emerging countries, and, above all, in promoting freedom, human rights, and social responsibility.

Conference Reports

First Plenary Conference

The first meeting at the Wye Plantation in Maryland was an informal gathering held from December 6 to 8, 1996. No special documents were prepared for this meeting, and the members of the U.S.–Japan 21st Century Committee did not make any substantive decisions or public statements; instead, they reached a consensus on topics for future meetings, as well as on the timing and locations. They agreed that Secretariat papers should be prepared and circulated in advance of each meeting, and that these papers would provide the basis for discussions among the members.

The Committee determined that three plenary meetings would be held at six-month intervals, alternating between the United States and Japan. The main topics for each meeting in succession were to be economic questions, mutual security, and problems in education. In each case, each side would focus its preparatory work and papers on its own country. Additional agenda topics could be added according to the wishes and interests of the members.

Second Plenary Conference

Each side submitted papers on its respective economic situation. The U.S. paper also discussed some bilateral and regional questions, while the Japanese paper concentrated on deregulation as the critical economic need for Japan. During the meeting the members discussed and agreed upon several conclusions.

Overview and Recommendations

Introduction

The U.S.–Japan 21st Century Committee believes that a healthy, dynamic relationship is fundamental to the maintenance of peace and stability in the Asia-Pacific region and the world. The two nations must work together to promote open and growing trade with each other and with all other countries. In most respects the relationship has been extraordinarily successful for the past 50 years. The Asia-Pacific region is peaceful; our peoples enjoy unprecedented prosperity; and the future is bright. We need, nevertheless, to strengthen the environment where all countries can continue to prosper in peace.

The Committee believes that the U.S.–Japan relationship must and will continue to serve the interests of both countries indefinitely. In order to assure that outcome, however, we believe that there are steps each nation must take to establish ties close and strong enough to meet the challenges of the future. In addition, there are areas where they must work together for their own benefit and that of the region and the world.

Each side has prepared a paper recommending what actions each can take to improve its own economy with a view to lessening the pressures that lead to friction and, more important, enhance the ability of both countries to fulfill leadership roles in the region and the world. Each side recognizes and appreciates the paper prepared by the other. The papers set forth ambitious goals that, to be honest, cannot all be achieved immediately. They nevertheless describe paths that both countries should aspire to follow.

What Japan Must Do

Regulations in all areas of the Japanese economy must be abolished immediately. Putting aside the idea of reciprocity, Japan must deregulate for its own sake. Reform should also include the role of government and public systems, special public corporations, development of social infrastructure, education, medical care, social welfare, etc. In order to achieve thorough deregulation, elimination of the

bureaucratic system is important. Collusion and unfair practices such as *keiretsu* trade in the private sector must be wiped out as well.

- ❑ A substantial reduction of bureaucratic organizations, that is, streamlining of ministries and agencies, and a large cut in the number of civil servants, is necessary. Special corporations that complement bureaucratic organizations have to be radically reduced. Local government organizations need to be slimmed, and their regulations should be strictly monitored.
- ❑ We support the activities of the Administrative Reform Council, including especially measures to strengthen the function of the prime minister's office and the cabinet.
- ❑ In order to maintain a fair competitive environment, the Antimonopoly Law has to be enhanced. Legal sanctions against collusion and similar acts by industrial groups have to be strengthened, and the recognition has to spread that they are acts to be denounced in terms of social ethics.
- ❑ Under the current strong bureaucratic systems in Japan, bureaucrats use their legal authority for purposes other than those regulated by the law, and there are many cases where they unfairly force their will. Such actions should be prohibited, and bureaucrats who use legal authority for purposes other than those laid down by the law should be punished. Further, in order to give precedence to the legislature relative to the administrative branch, Diet members' bills should have priority.
- ❑ An increased burden of pensions and medical payments in accordance with the decreasing number of children and the aging of society will happen inevitably in Japan. By the year 2020, the share of the population over age 65 will be 26.9 percent. Further, in addition to the inefficiency of the service industry, the manufacturing industry faces a crisis of decline in competitiveness. Using this sense of crisis, Japan must realize major reform, including tax reforms to balance the tax benefits available especially to business.
- ❑ Another essential task for Japan is the radical reform of the fiscal deficit structure so that we can effectively deal with problems such as the aging society. The accumulated fiscal deficit is expected to grow ever larger. The present government is making positive efforts to deal with this problem, and we encourage this trend. At the same time, it is widely recognized that general tax reforms are needed.
- ❑ Japan should take measures to further develop the Tokyo international financial market to make the yen more widely accessible for international transactions and settlements and to make it more attractive to overseas investors. This is likely to contribute to the stability of the international financial market, as the yen will be an alternative to the dollar and the euro.

What the United States Must Do

The United States in its leadership role is facing new challenges that call for measures that will strengthen its economy and make it both more competitive and better able to meet the future needs of its people. The recent agreement to achieve a balanced budget within five years is only a first step to resolve threatening fiscal disorder. It must now be complemented by additional steps.

- ❑ Reshape Social Security and make it actuarially honest.
- ❑ Reorganize Medicare, reducing its costs and inefficiencies and putting it on a permanent self-supporting basis.
- ❑ Remove the upward bias of the Consumer Price Index (CPI), estimated to be as much as one percentage point, in determining the indexation of entitlements and other benefits.
- ❑ The U.S. tax code operates to slow savings, penalize work and investment, and encourage borrowing and consumption. The tax code needs radical revision placing the primary burden on consumption, not on income, in order to encourage savings and economic growth.
- ❑ U.S. business taxes place U.S. firms at a competitive disadvantage in international competition. Among other changes, we advocate that U.S. business be allowed to expense investments in the year made.
- ❑ Foreign currency market intervention or jawboning by government agencies cannot be seen as an alternative to the achievement of exchange market stability through sound monetary and fiscal policy, and should be avoided in any situation other than a very short-term response to speculative movements.

Many other actions are in order. These are set out in the U.S. paper.

Trade and Investment Imbalances

The bilateral trade imbalance has declined in recent years and trade friction between the two countries has eased somewhat. However, if the imbalance should rise even temporarily as a result of yen depreciation, fiscal consolidation, or regulatory reforms, criticism of Japan's policies and practices will strengthen and the U.S. demand for market opening will increase, leading to the possibility of renewed trade and economic friction. The cause of friction is deep-rooted. Formal barriers to imports and investment are not the only causes of friction or unhappiness among the U.S. business community. The more important cause of the problems that arise from time to time is that a large number of outsider businessmen feel they have been or are being discriminated against, both by official, arbitrarily applied administrative guidance and by the Japanese corporate culture, which appears to give priority to doing business with a native, established company. In more general terms, many feel they have not been treated fairly by the Japanese system and practices. Economic problems have an impact on security issues. It is

necessary that both Americans and Japanese feel that they are getting a fair deal in order to sustain strong support in each country for the broader, critically important strategic relationship. Even from this viewpoint, it is imperative for Japan to carry out revolutionary and thorough reform of the regulatory structure in order to eliminate the roots of trade friction, and the Japanese must enhance their international awareness and their tolerance and acceptance of other cultures. On the other hand, the United States must understand that, with regard to trade issues, neither side is exclusively at fault, and it is dangerous to continue resorting to sanctions.

There is concern in both countries about the imbalance in investment flows, and particularly the relatively low level of new foreign direct investment in Japan. Deregulation in Japan should lower the cost of investment, making it more attractive. Deregulation alone, however, may not be enough. Further measures therefore should be considered and implemented as needed.

Findings and Recommendations

In their discussions the members agreed on a number of points.

Both countries can do better in promoting the welfare of their people and improving their relations with each other. As business leaders in both countries have found, there is much they can learn from each other. This exchange of knowledge can add to the efficiency and effectiveness of both countries.

Improved U.S.–Japan bilateral relations are not only important for their own sake, but also would give both countries a better opportunity to go beyond bilateral considerations and exercise a more positive role in the region.

Leadership comes from example as well as from power. When Japan and the United States do things right at home, they encourage other countries to act more effectively in their own development, and the whole world benefits.

It is our common recognition that the world is moving toward a unified, free, market-oriented economy. Based on this premise, rather than criticizing each other, we must focus on reforming ourselves and offering each other advice. As problems arise in the years to come, we must resolve them in nonthreatening and non-blaming ways.

It is undesirable to pursue unsound fiscal policies in order to solve bilateral trade imbalances. Japan needs market opening and genuine deregulation. The United States needs to increase savings and sound investment.

Globalization of the world economy through the development of networks of instant communications, which have no restraints in space, must be juxtaposed with the need for nations and groups to preserve their own cultural identity. A networked world must also be a world that respects cultural differences.

Whatever the United States and Japan do must be for the benefit of all. Trading arrangements among nations must be open. Harmonized rules and standards for business and trade must be structured so that all countries can share the benefits.

Specific External Measures for Joint Action

Japan and the United States have become economically successful, and we recognize a special obligation to provide meaningful assistance to the least developed

countries. We also know that enhancing their economies benefits global prosperity. These countries must have responsibility for their own economic growth, and foreign aid can only support their efforts. Japan and the United States should coordinate their assistance and economic programs more closely to ensure effectiveness, not only bilaterally but also in their support for multilateral development organizations such as the Asian Development Bank (ADB).

China is growing rapidly and is on the track to becoming a leading trading nation. We strongly encourage action to bring China into the World Trade Organization (WTO) on reasonable terms. China cannot be expected to comply at the outset with all the disciplines of the WTO; such conformance should nevertheless be expected following a reasonable period of adjustment.

The two nations should support and further the activities of the WTO and the Asia-Pacific Economic Cooperation (APEC) forum. We need to broaden and deepen the provisions of both the WTO and APEC. Multilateral understandings are needed that fully cover international finance and investment, and competition policy.

Projects for Future Consideration

Members discussed a number of possible measures to achieve fundamental improvements in their relations with each other and the world. They did not reach any conclusions, but did decide that further study and discussion of the following topics is merited.

Negotiations on trade have made great progress, yet other impediments to full and fair competition remain. They include national policies in areas such as economic regulations, antitrust policies, fair trade rules, and so on. Broadly covered in the term “competition policy,” they nonetheless can have a major impact on economic efficiency and equity. This question should be studied with a view to determining how it should be addressed and how national systems might be harmonized.

Harmonization of other national systems may also be considered. Candidates for such discussion include national policies regarding social programs, the problems of aging, and the improvement of worker training.

The negotiation of a U.S.–Japan Free Trade Agreement could bring benefits if means could be found to build such a structure in a manner that would truly open markets, remove trade frictions, and also be open to other countries and not restrictive to their trade.

U.S. Trade and Economic Questions

Objectives of the U.S. Members

Among the purposes of the U.S.–Japan 21st Century Committee is to recommend actions and programs that will improve and strengthen relations between the United States and Japan in the critically important area of trade and economic relations. The members of the U.S. delegation have agreed to consider what the United

States should do to narrow or eliminate areas of trade friction, develop more balanced bilateral economic relations, promote the expansion of trade, reduce imbalances in the international payments of the United States, enhance cooperation between the United States and Japan in the context of APEC and other multilateral organizations, and strengthen the competitiveness and efficiency of the U.S. economy. This approach differs from the deliberations of earlier gatherings of distinguished private representatives of the two countries.

U.S. committee members have determined that their recommendations should cover the full range of actions and policies that the United States should pursue to meet the above general objectives. Our recommendations are primarily for long-term steps, both direct and indirect. We fully accept the premise that neither side is exclusively at fault for the concerns listed in the previous paragraph. We have concentrated on actions government can take to improve the economic climate in which individuals and businesses make decisions to consume, save, or invest as the best path to revise the structure of the U.S. economy as it operates in the competitive global environment.

It is in the interest of both countries that closer and stronger relations be achieved. The steps we propose conform to the most-favored-nation and national treatment principles of the WTO. In meeting those tests, they are also in the best interests of the Asia-Pacific region and the world.

The United States and Japan as Global Trading Nations

The combined exports of Japan and the United States of \$787 billion are more than 21 percent of total world exports. The two nations conduct this huge trade under the multilateral rules of the WTO, and have a strong interest in the effective operation of the WTO. The United States correctly supports the step-by-step expansion of the WTO to cover new areas such as telecommunications, which was the subject of a useful multilateral agreement concluded on February 15 this year. WTO coverage of international financial services and direct investment should be expanded as part of a continuing effort to deepen economic integration among all trading countries.

The dispute settlement procedures of the WTO are useful for resolving trade conflicts, and from time to time the United States and Japan will make use of them, as they have already done in a few cases. U.S. committee members believe, however, that the two countries should first seek to resolve trade and economic issues between them through bilateral talks. The WTO encourages such direct efforts. The WTO Understanding on Dispute Settlement provides that a "solution mutually acceptable to the parties to the dispute...is clearly to be preferred."

Regrettably, bilateral talks have sometimes been conducted in a rancorous atmosphere. Nevertheless, the results over the years have been good. Agreements on semiconductors, telephone systems, agricultural products, and financial sectors, for example, have opened markets and expanded trade to the benefit of both countries.

Another reason for seeking solutions in bilateral talks is that many topics are not addressed in WTO agreements. Bilateral negotiations between Japan and the

United States are the only recourse in such cases. The agreements thus reached often become models for eventual multilateral agreements. International financial and investment flows are examples of areas in which the United States and Japan have already concluded understandings, and where further progress, both bilateral and multilateral, would be welcome. The difficult question of national policies and laws regulating business competition is another area that the United States and Japan should address in a bilateral context.

Asia-Pacific Economic Cooperation

The United States has devoted a substantial negotiating effort toward the establishment of APEC as the primary vehicle for promoting economic integration in the region. APEC has set a goal of free trade among its industrialized members by 2010, and all members by 2020; this target is ambitious but achievable. Its implementation would be good for both Japan and the United States, provided it covers substantially all trade and meets other requirements under WTO rules. Coverage must also extend to services and to other areas such as direct investment, intellectual property, and financial services. The United States must not be shy in pursuing the goal of economic integration and open markets with the APEC region.

There is no conflict between achieving APEC goals and simultaneously strengthening U.S.–Japan bilateral economic relations. In fact, the two are mutually reinforcing. Japan and the United States must assume effective leadership roles in APEC.

A U.S.–Japan Free Trade Area. U.S. members have considered the many proposals for establishing a U.S.–Japan Free Trade Association or Customs Union. There are many arguments that support such a proposal as a means to open markets fully, at least between the two large trading nations. We are concerned, however, that the proposal would distract from the development of closer trade ties and the removal of trade barriers in the Asia-Pacific region as a whole. Moreover, customs unions and free trade associations do not deal with capital flows, services, or regulations, which are increasingly important elements in international economic friction. The realization of open markets throughout the region through the fulfillment of APEC objectives should have priority. The United States and Japan, however, could consider acting jointly to fulfill APEC objectives on an accelerated schedule between themselves, possibly including other APEC members who would be free to join.

China and Human Rights. U.S. members feel deeply concerned about the continued denial of human rights in China. While many other nations share that concern, the United States alone conducts an annual review of whether to deny most favored nation (MFN) trading rights to China as a means of bringing pressure for change. While political and other pressures are certainly possible and even necessary, MFN denial is not an effective tool in this circumstance. Even the fact of the review itself imposes costs and creates a risk that a wrong decision will be made at great expense to U.S. interests without influencing China's behavior.

Preparing for the Coming Global Economy

We are clearly living in an era when economies and cultures are becoming global. This means that art, science, research product, and information of all kinds are available anywhere at any time. The location, therefore, of a business headquarters, of an author, or of a scientific researcher is now much less important than before. Large scale activities can be managed from any location, and the actual work can be decentralized among widely scattered locations, although by far most multinationals still have recognizable national identities.

We are moving toward a world of unified markets, one in which trade barriers will be rejected because they are wasteful and inefficient and do not work in anyone's interest. We believe that, paradoxically, nationality and other traditional ties will continue to be important. Doing business with someone you have done business with before will still be useful because of the personal confidence developed, and the assurance which known and reliable contacts provide. Distance will not count; good experience among buyers and sellers will. Individuals will develop networks with other individuals; instant communications will keep them in constant touch; and the result will be greater efficiency and productivity from which all will benefit.

We submit our recommendations with this reality at the forefront of our thinking. Good planning for the future will facilitate the process of globalization, remove barriers to the movement of goods, and permit the provision of services across national boundaries with as little restriction as possible. International markets for commodities, currencies, and financial assets already exist. Globalization is occurring. It must be understood and intelligently managed.

U.S. Economic Performance

Six years of uninterrupted growth has steadily increased U.S. productivity and has reduced unemployment to levels lower than even the most optimistic forecasts. Inflation has been low. This prosperity has increased federal revenues and reduced deficits, but not eliminated them. When the last federal budget was sent to Congress the current year deficit was forecast at \$125 billion. More recent estimates, taking account of recent high levels of growth, are that the deficit will be in the range of \$70–75 billion. These signs of strength are welcome. They do little, however, to ameliorate the longer-term problems that face the United States as the baby-boom generation moves toward retirement and as costs of medical care and other entitlements rise sharply. Good economic performance gives us a respite but must not distract our attention from the need to take measures now to prevent a severe budget crisis in the future.

Trade Surpluses and Deficits

Much time and energy has been given to analysis of overall trade balances between Japan and the United States, and of each country with the world. Japan consistently runs a large current account surplus with the world; the U.S. has consistently run a deficit since 1975. The causes are many, and not all of them are signs of

weakness and deficiency. Factors that may be considered deficiencies on the U.S. side are identified and discussed later in the report. The record of U.S. trade shows that U.S. trade deficits with the world declined in the period from 1988 through 1991. U.S. deficits with Japan also moderated in that period. Since 1991 U.S. global trade deficits have again increased. A leading cause is the general prosperity and strength of the U.S. economy during a time when the Japanese economy has been in difficulty and when European countries have also been competing hard for export increases in order to ameliorate weak domestic demand and unemployment problems. Regardless of overall balances, U.S. consumers gratefully buy foreign products at highly competitive prices, and foreign suppliers welcome the opportunity to keep available production resources at work.

U.S. trade deficits with Japan and the world naturally stimulate U.S. negotiators to pursue market opening measures in Japan and elsewhere. Market opening is desirable in any event. The argument is so strong, in fact, that action to bring it about is justified regardless of the existence of trade deficits. U.S. members of the committee conclude, therefore, that the United States should strongly support market opening in Japan as an important objective for both Japan and the United States. Nevertheless, we should have no illusions that this effort alone will be sufficient to correct the U.S. trade deficit, either bilaterally with Japan or the world. We must also recognize that decisions on market opening are Japan's to make. We can advise and urge, but we cannot compel.

Macro Causes of Trade Imbalances

International economists have pointed out that trade balances are only part of national accounts, and that they must be considered in a larger context that includes data on national consumption, savings, and investment. A country will incur a trade deficit whenever more is invested in that country than it saves. The experience of both Japan and the United States bears this out. Savings rates in Japan are high, and excess savings are invested in foreign countries. Japan therefore must export more than it imports (or, more broadly, must have a current account surplus) to obtain the foreign assets that its investors want. In the United States, savings rates are low, but investment demand is strong. The United States, therefore, imports more than it exports, investing the value received at home, and issuing to foreign providers title to assets in the United States or interest bearing debt instruments. Given the strength of the U.S. economy, these investments are highly desirable.

An important component of the U.S. savings rate is the fiscal performance of the U.S. government. Government deficit spending uses up savings, worsens the shortage of investment from U.S. sources, and increases the current account deficit as investment is drawn in from abroad. Although it has not been shown that government deficit spending, or a shortfall in national savings, will produce an equal and balancing trade deficit, it is accepted that deficit spending and low levels of national savings are important contributors to current account deficits. The process undoubtedly occurs with a lag. Nevertheless, an improvement in the international payments balance of the United States is clearly one of the many benefits that

would accrue if government deficit spending were eliminated and U.S. consumers and businesses increased savings.

U.S. members of the 21st Century Committee have addressed this question carefully and have a number of recommendations for accomplishing improvement in these areas.

Foreign Exchange Rate Adjustment

In dealing with macroeconomic factors influencing international payments, some authorities point to foreign exchange rate adjustment as a tool to correct imbalances. The U.S. members of the committee have much doubt about this thesis. Foreign exchange rates are determined in dynamic international markets in which the financial flows associated with trade in goods and services are only part of the market. Investment and speculative flows are also important. Central banks, even acting in concert, cannot “fight the market” by being major buyers or sellers indefinitely. At times markets overshoot, and central banks may then play a useful role in adjusting rates in the direction in which the market would soon carry them anyway. Although the cost of foreign exchange is important to any businessman in international trade, the best approach is to let the market decide rates.

Neither jawboning nor market intervention is effective over time. Generally stable rates are certainly desirable, but they will be best achieved through the pursuit of sound monetary and fiscal policies in leading trading nations.

Strengthening the U.S. Economy

Balancing the Federal Budget. The U.S. members of the Committee welcome the commitment of political leaders to balancing the federal budget by 2002. No other single measure offers to do more to increase saving and investment in the U.S. economy, making workers more productive and competitive. Every dollar not borrowed to finance a federal deficit is a dollar potentially made available for private investment.

Government borrowing directly reduces the amount of private saving available for investment in capital stock. Lack of new and expanding capital stock means that labor productivity does not increase as much as it otherwise would. Increases in labor productivity are the most important component in increases in real wages. If government borrows less, or not at all, more assets are available for market-driven infrastructure investment, which generally adds to economic efficiency and competitiveness.

A balanced budget would reduce the growth of the annual cost of interest on past debt. As our debt increases, so does the unavoidable interest charge, placing still another burden on the taxpayer of the future. Taking the federal government out of the market for borrowing would also help to keep interest rates low. While interest rates depend on many factors, the effect of reduced or no federal borrowing, combined with the availability of private saving that would otherwise go into government bonds, would tend to reduce interest rates while also providing a supply of investable assets to meet the demand stimulated by the lower rates. The result would be more assets for investment without inflationary pressure.

Much of the funding for the federal deficit comes from foreign investors. In a sense this willingness of foreigners to hold U.S. government debt is a compliment to the stability and productivity of our economy. This foreign debt, however, is a claim on our future production that, if called, we would be constrained to meet. But if we borrow less, we preserve for our citizens more freedom over how we dispose of our future production. The less we borrow, the less debt we and our children will be required to finance at interest, or repay, and the more we will have to invest in ourselves.

The problem of balancing the budget does not by any means end in 2002, although much media coverage concentrates on that time period. Present trends, if not changed, will lead to burgeoning requirements for increased federal spending after 2002. The imminent retirement of the baby-boom generation, assuming increases in Social Security and Medicare spending under the present system of entitlements, would leave the United States with a public debt equal to 63 percent of gross national product (GNP) in 2010 and 104 percent in 2020. Clearly, this straight-line trend cannot be sustained. Correcting the problem, therefore, is not a task for the next five years alone, but a continuing responsibility. The sooner we address the need, the less painful the remedy will be over time. There are several measures that, together, can establish the control of spending that we must have.

Social Security. Originally conceived as a program to guarantee that the elderly population would be assured some minimum level of income, Social Security has grown to cover virtually all older and disabled persons. Benefits are now financed by payroll taxes collected from virtually all workers. For some years the wage tax (FICA) has yielded more revenue than needed to pay benefits, and a “surplus” has accumulated in a Treasury Trust Fund invested in special government bonds. Social Security, moreover, is in no sense an actuarially sound pension scheme. As the baby-boom generation reaches retirement, benefit payments will rise sharply. Although estimates vary depending on underlying assumptions, in the year 2013 Social Security tax receipts will cease to cover benefits paid, and the trust fund balance will start to drop and will be exhausted by the year 2029.

Some would say that the crisis is not immediate. They are fundamentally and dangerously wrong. The cash flow problem facing Social Security is critical. There is no better time to deal with this question than now.

There are several means for strengthening the Social Security system, but increasing the payroll tax is not an attractive one. The combined tax for Social Security and Medicare, divided for most workers evenly between employer and employee, is 15.3 percent. Low-income workers ordinarily pay more, often far more, in Social Security and Medicare taxes than they do in income tax.

Subsidizing the trust fund from general revenue is also not feasible without abandoning the goal of balancing future budgets and keeping them in balance. The first and most consequential alternative to the present system is to delay the age when retirement benefits begin. In 1983, Congress raised the age of eligibility for full benefits from 65 to 67, phasing in the increase between 2000 and 2022. This modest approach helps, but not much. The health of older people and life expectancy have increased substantially and will continue to increase. Older people are fully capable of working longer, and vast numbers of them will want to do so for

the many financial and psychological benefits that useful employment provides. For many others, part-time employment will also be an attractive opportunity. Beginning as soon as possible, the full eligibility age for Social Security should be extended each year by three months, until it reaches 68. Reduced benefits would be available at age 65, increasing in annual steps of three months, instead of from the present age of 62.

Another proposal to reduce the cost of Social Security would be to apply a means, or “affluence,” test in determining eligibility for benefits. Simply put, if a Social Security beneficiary has other income exceeding some threshold, such as \$50,000 annually for a married couple, then Social Security benefits would be reduced or phased out entirely. One estimate is that a means test at this level would save more than \$20 billion in 2002, and more thereafter. A means test at \$30,000 would save more than \$75 billion in 2002. One problem with this proposal, however, is that it would invite beneficiaries to “game” the tax and Social Security system by hiding or transferring assets and their associated incomes to relatives or other persons in order to maintain eligibility. This temptation could be reduced by setting the means test at a relatively high level and by tighter enforcement of gift taxes.

All of the above should be enacted now. A further step would be to reduce annual cost-of-living adjustments to Social Security to more accurately reflect the reality of living costs, actual purchasing behavior and also changes in the quality of products. The U.S. members strongly support this proposal, which is described below.

Medicare. Medicare funding is also rapidly approaching a crisis. The Medicare Trust Fund is on a track toward zero by 2001. It is a more difficult and more urgent problem than Social Security. Cuts in program costs presumably agreed to by the president and Congress could prolong the life of the fund by five or six years., but instead of resorting to patchwork or short-term fixes, Medicare should be fundamentally restructured now. The changes must constitute a permanent solution. The longer the delay, the more painful and costly adjustment will be.

The cost of Medicare has steadily increased at rates far higher than increases in the consumer price index(CPI). Much of the cost increase results from the fact that Medicare recipients have no incentive to keep costs low. Rising program costs have been paid out of current revenue, with little provision made for building reserves to pay the costs of future beneficiaries who, having retired, no longer make payroll contributions and whose premiums for Part B coverage are only about 25 percent of the cost. Changes in Medicare should encourage cost-consciousness on the part of recipients. Future costs should be provided for by establishing reserve funds to meet them.

The program for current recipients should be amended to provide a high deductible on claims. Setting that figure at \$2,500 annually would give beneficiaries a personal sense of involvement in treatment choices and costs. Cost reduction through reducing waste and fraud is naturally to be welcomed, as are measures to enroll recipients in lower-cost health maintenance organizations (HMOs). These savings, however, do not solve the longer-term problem of soaring costs as the baby-boom generation passes into retirement.

Measures are needed to guarantee future generations that the Medicare program will exist when they retire. One proposal is to establish a cohort system under which future recipients would be grouped together with others in the same birth year, and each cohort would contribute during their working lives to a fund that would purchase health insurance with high-deductible provisions for each member of the cohort as he or she reaches 65 years of age. The size of each cohort would make no difference since larger cohorts would have more contributors to balance the larger costs of insurance for each member. A high deductible of \$2,500 annually would give recipients strong incentive to control costs. Additional "gap insurance" should be available through the private sector for those who choose to purchase it. Low-income retirees would continue to be eligible for Medicaid, with their costs recognized as welfare benefits made available for those truly in need. A cohort plan could be introduced now covering all workers who are age 40 or younger. This would assure them that, 25 years hence, their own contributions would be devoted to their medical insurance safety net. Those above 40 years of age would be assured that they also would have coverage for health care costs exceeding the fixed annual deductible.

Consumer Price Index. Many economists, after careful study, have concluded that the CPI used to adjust Social Security, federal pension, and tax exemptions overstates actual inflation. A case could even be made that full indexing of federal benefits is not appropriate because the recipients of these payments are retired and do not face many of the expenses imposed on families with children or on working people. A further argument is that we simply cannot afford the cost in a time when a balanced budget is so important. The U.S. members therefore strongly believe that the application of CPI adjustments to entitlements and other benefits should be a full percentage point below the calculated CPI. This could be subject to annual review by a board of objective analysts and adjustment up or down within some range, or it could be enacted by Congress.

This revision of price indexing of benefits and tax exemptions must be applied to all payments without exception. Even one exception would probably lead to the unraveling of the concept, reducing the decision on this necessary measure to a contest among interest groups without regard to equitable treatment.

Personal Income Tax Reform. The present U.S. personal income tax system is complex and expensive to administer. It discourages saving and distorts economic activity as payers search for tax avoidance. In 1993 compliance cost the average family or individual taxpayer an estimated \$350 per year, or a total of \$38 billion.

There is broad consensus that tax reform is necessary. There is also consensus that the reform should be equitable, neutral in its impact on revenue, and designed to encourage personal saving. Proposals for reform include: (1) a national sales tax; (2) a flat tax on income with substantial family and personal exemptions and few other deductions; and (3) an unlimited savings allowance (USA) tax system designed to tax individuals on their consumption and deferring tax on savings until withdrawn and consumed.

While U.S. members have reached no consensus on any one of the three reform proposals, they strongly support a reform of the personal tax system that would

exempt saving of all kinds from taxation for all taxpayers. This system could be much simpler than the present tax code for many taxpayers. In effect taxpayers would all have unlimited individual retirement accounts (IRAs) but would not be required to make mandatory withdrawals from savings after reaching a certain age. This system would give a powerful incentive to saving for all persons. Low income earners would fall in an untaxed zero bracket and would continue to be eligible for the earned income credit (EIC).

Household savings rates in the United States are virtually the lowest among all Organization for Economic Cooperation and Development (OECD) member countries. Increased individual savings combined with an end to government dissaving through low government deficits would provide funds for investment in productive capital, leading to increased worker productivity and international competitiveness, and help to displace foreign investment in the United States that has its counterpart in the U.S. trade deficit.

The proposed consumption-based tax system would replace many deductions that complicate our present income tax system with a general deduction for all savings. Simplifying the complex system of deductions, preferences, and exemptions, and eliminating many, would make possible some reduction in presently high marginal rates.

This would reduce the attraction of tax evasion and avoidance and simplify the preparation and processing of returns.

Business Income Tax Reform. Corporate profit and business taxes in the United States place unnecessary burdens on business saving and investment, discouraging increases in worker productivity, encouraging debt and treating production for export in an equally disadvantageous manner. The latter point is important because it directly affects U.S. international trade competitiveness. The tax systems of our international competitors rely heavily on value-added taxes (VAT) and sales taxes. Under WTO rules these taxes do not have to be levied on exports and, if levied during some stage of goods processing, may be refunded. The same rules permit the collection of VAT on imports. U.S. exporters pay taxes on earnings from all production, exported or not, and they also pay VAT on U.S. exports to countries that impose it.

U.S. members propose a simple reform of business taxes. In addition to the deductibility of usual business costs as allowed under present rules, businesses should be permitted to treat all investments as expenses in the year made. Business thus would have an added incentive to invest free of the complex process of calculating depreciation on capital assets. This measure alone would greatly simplify the preparation of business tax returns. One large U.S. corporation's annual tax return is 6,300 pages long and weighs 76 pounds. In one recent year, the cost to business of tax compliance was estimated at \$123 billion, exceeding the \$117 billion in tax collected under these returns.

Business and personal taxes should also be integrated under the principle that each income flow should be taxed only once. Income from capital, whether held by individuals or corporations, would be taxed when generated, and no further tax charged when business income is disbursed to business owners. This would simplify collection and treat all kinds of income in the same way.

Education and Training. Our most important investment is the education of our people in order to give them the skills and knowledge to be productive in our vast and growing information and technology age. The night-shift sweeper in a factory today is likely to be the operator of a \$40,000 sweeping machine who gets his work assignments by keying his employee number into a computer terminal. Trained and motivated workers are ever in demand, while those without basic literacy and disciplined habits face long-term unemployment simply because they are not equipped to add value to an employer's enterprise and thus justify their wages.

The minimum objective of our education system must be to provide everyone with communication and math skills basic keyboard literacy and the earned self-esteem and work discipline that is indispensable to productive employment. Achieving this on a national basis requires some degree of coordination of standards and broad dissemination of information on what really works in modern education. It does not require ending local supervision and control of schools. We do need, however, generally accepted standards for student performance in essential skills, including English, math, civics, and natural and social science. By graduation from high school, if not sooner, all students should have demonstrated that they have learned these core subjects. Those students who have difficulty in meeting standards should be given the additional opportunity and training needed. When individual students leave school without being able to read, it is evident that the system failed at some early point in the education process and did not recognize that more educational effort was required.

Computer systems in the classroom obviously make sense in an increasingly computer-oriented work environment. There is some danger, however, in treating computers as hardware, which can somehow be equated with blackboards, and provided in classrooms without much concern for how they are used. Computers require software programs that students learn to use to solve problems, retrieve useful information, or convey their own thoughts and analysis. Creation of such software requires the talents of our best programmers, careful testing in the classroom, proper teacher training, and thorough evaluation of what works and how systems can be improved.

We need a stronger emphasis in our schools on devoting resources to the classroom, and not to administrative overhead that, unfortunately, has consumed an increasing share of education funding in recent years. With our student population growing, we also need to increase the number of teachers. The early retirement of many military and public service personnel is an opportunity to recruit qualified and motivated new teachers who can bring to teaching a full range of advanced skills and experience. Programs to enhance the teaching skills of these and all other teachers should be strengthened. Certification of teachers by the National Board of Professional Teaching Standards should be encouraged by offering financial incentives for those who seek the certificate and those who achieve it.

Employers in the United States have a vital interest in the quality of education, especially in the K-12 levels. They should support local school programs. Learning opportunities in the workplace, more opportunities for apprenticeships, and more orientation of classroom work to solving typical workplace problems are

needed. The objective should be job preparation through a program that offers a logical transition from school to workplace.

Our system of college and graduate level education is strong and effective. Every year tens of thousands of foreign students enroll in our colleges and graduate schools to obtain advanced education of the highest quality. While federal student loan programs are a good investment, subsidies for higher education do not need to increase. Some change in focus toward special needs may be needed in, for example, certain sciences or technologies, but our primary attention should be directed instead toward education at the K–12 levels.

Summary. The United States and Japan share a vital interest in the broadening and strengthening of mutual economic and trade ties. Both countries benefit when trade frictions are removed or managed with perceived equity and dispatch.

This objective should be pursued with full recognition of the responsibility both countries have for improving the global free trading system, and for improving economic ties among the countries of the Asia-Pacific region. They therefore should strongly support the work of the WTO and of APEC.

Trade surpluses and deficits are symptoms of deeper problems that the United States should address through strengthening its own competitiveness, recognizing that primacy of attention must go to imbalances in its global trade and payments accounts.

The United States should utilize dispute settlement procedures in the WTO when appropriate and necessary, but only after making every possible effort to find solutions through bilateral discussion and negotiation. We must also recognize that WTO procedures and rules do not cover many international economic topics that therefore can only be addressed bilaterally.

Strengthening the U.S. economy and international competitiveness will benefit the United States, as well as its relations with Japan and the world. Several steps are required now.

- Balance the federal budget and manage it so that it is generally close to balance beyond the year 2002.
- Fix the Social Security system now so that it is guaranteed for future generations on fair, reasonable, and affordable terms.
- Correct the Medicare system so that each generation is assured of health care protection purchased through its own contributions. Reduce costs in the current program and develop cost-consciousness among all beneficiaries.
- Correct the CPI to remove its upward bias.
- The federal income tax system on individuals requires complete reform in the direction of taxing consumption and removing personal savings entirely from taxation.
- Revise the business income tax by eliminating double taxation and allowing all investment to be treated as current business expense. This would

encourage business investment, strengthen worker productivity, and improve our international competitiveness.

Japanese Deregulation

The Worldwide Trend to Decentralization and Future U.S.–Japan Relations

The Worldwide Trend of Structural Reform Toward Decentralized Systems. The collapse of the former Soviet economy at the beginning of the 1990s was taken to signify the failure of central economic planning and the triumph of capitalist market economics. The fall of the Berlin Wall should not, however, be seen merely as a symbol of the defeat of socialist ideology. It is also a sign of the larger movement of global civilization from centralized to decentralized economic and social systems.

At the time, many people in Japan believed that they were the winners and that Japanese-style economic management methods were the best. In 1990, the United States was in the midst of recession, while Japan was still basking in the afterglow of the bubble economy.

The end of the long Cold War, however, has also led to the defeat of centralized systems of bureaucratic control, one of which is Japan's system of bureaucracy-led cooperative administration. Today, with the nation plagued by economic stagnation, political indecision, lack of individuality and creativity, and a host of other problems, many Japanese have become acutely aware of the defects of the Japanese-style system of social and economic management and of the need for radical reform.

In a worldwide trend, radical administrative and fiscal reform, from centralized to decentralized systems, is coming to be seen as the most effective way to break out of such an economic and social impasse and bring renewed vitality. An important means of decentralizing administrative and fiscal systems is the complete abolition of restrictive regulations.

Japanese Reform and the U.S.–Japan Relationship. In addition to the aforementioned short- and medium-term (10-year horizon) problems, there are more acute long-term (generational) problems for Japan. The first is that of an aging society. By the year 2020, the proportion of the population over age 65 will be 26.9 percent and that of persons in the 20–30 age range no more than 14.9 percent. According to recently published Ministry of Health and Welfare estimates, by the year 2025, and even with the pensionable age set at 65, 34 percent of income will be deducted for pension payments. It is clear that this will weigh heavily on Japan's economy.

The second problem is a gradual decline in the international competitive power of Japan's manufacturing industries. Along with Germany, Japan is a country with a high wage structure. In parallel with an aging of society with fewer children, there is a strong likelihood that this will grow even higher. In contrast, China (with

its vast population) and other Asian countries carry out industrial production at considerably lower labor costs.

Moreover, many of Japan's characteristic manufacturing industries simply produce large volumes to a standard; where Japan excels is in production technology. This is fundamentally different from the creative software technology, finance, and information aspects in which the United States has the leading position. Japan's leadership could be easily eroded by challenges from other Asian countries.

In consideration of these medium- and long-term changes, Japan must by and large abandon its culture of bureaucratic supremacy that has hitherto been so profitable for its manufacturing industry in respect of standardized mass production, and cultivate a democratic decentralized culture that affirms a new and free socio-economic structure. For these reasons, our main agenda includes bold administrative and financial reform and the question of deregulation.

Reductions in fiscal outlays pursuant to fiscal reform, particularly a large decline in those for public enterprises, will of course be a deflationary factor for the Japanese economy. There will also be many deflationary effects from corporate rationalization and domestic price cuts as competition intensifies in an environment of deregulation. Some shrinkage in Japan's imports is therefore possible, albeit temporary.

There will probably be criticism of Japan's search for a policy to deal with this if that policy results in a further expansion of an already large trade imbalance. But based on the experience of the past 20 years, we can be confident of the following.

A policy that seeks a balanced trade objective by increasing outlays for public enterprises, etc., is like buying a drink for an alcoholic: it might have some temporary effect but it will have bad results over the medium and long terms. The reasons for this are, first, that fiscal spending expansion strengthens bureaucratic guidance, hardens the industrial sector collusion system, and strangles free-market competition; second, such spending expansion gives rise to an economic structure of irrationally high prices and widens the gap between domestic and overseas prices. A dual-pricing structure is possible whereby the prices of exports based on price approvals and greater fiscal spending are lower (even now we can cite domestic price gaps between the public and private sectors).

Third, there is the resulting strengthening of bureaucratic control, expanding the bureaucratic system in both its good and bad aspects, and preventing new entrants and new investment markedly (noteworthy in this respect are distribution, restrictions, transportation, education, etc.).

Fourth, along with higher domestic consumer prices, the propensity to consume would be held down by the uncertainty about the future (fear of higher taxes and collapse of the pension system) generated by fiscal deficits.

We believe that a democratic culture in which, along with a thoroughgoing elimination of bureaucratic control restrictions, bureaucrats' guidance and intervention are regarded as fundamentally undesirable (or at least unnecessary), must be made attractive as an environment for Japan's foreign and domestic investment markets and for the livelihood of individuals.

In consequence, reform this time must not be a simple matter of budget cuts led by the Ministry of Finance but of across-the-board action in respect of regulation,

state finances, the financial system, the economic structure, etc. We also believe that pursuing reforms by stages in the aforementioned directions will serve as a means of directing Japanese attention to the vibrancy and cultural merits of a creatively free United States and help create the cornerstone for basic U.S.–Japan cooperation and amity.

The Direction of Reform in Japan

The Necessity for Reform. The first task for Japan, which is 20 years behind the global trend toward liberalization, is to reform its economic structure and the social structure that supports it. There will be time to deal with the pain of reform after major surgery is completed, as in the United States. If Japan fears pain when it has barely made a start, it can make no progress.

Liberalization and deregulation are already worldwide trends. This suggests the following points. First, in each case, there is a common background of economic maturity and increasingly sophisticated and diverse consumption. In Japan, as indicated by the expression the “1941 structure” (also known as the “1940 structure”), the bureaucratic regulatory structure was formed under the slogan of catching up with and overtaking the United States and the major European nations. Each industry, administered under an “escorted convoy” system, grew as a harmonious whole; incomes also rose equally across the board, and stable employment was assured. During the phase of economic development, regulation had a rationale that was valid up to a point. At least regulation in the past had popular support, but with the maturing of the economy, it has been losing its *raison d’être*.

As income levels have risen with economic development, consumer needs have grown more diverse, personalized, and sophisticated. But it is difficult to respond flexibly to this new diversity while encumbered by regulations dating from an era when uniformity and equality were the goal. A mature society has different values, a different sense of what is right: namely, freedom of choice, as befits the new diversity of consumer tastes. To provide this, suppliers must be able to compete among themselves. It follows that the bureaucratic administration that protects suppliers, and the collusive arrangements it has fostered, are no longer good for society.

Japan is characterized by the fact that this structure of conformism and collusion has been sustained under a system of control headed by the bureaucracy. This can be traced to the bureaucratic culture, a national mentality that, since the Meiji Period, has exalted Japanese bureaucrats, regarding them as brilliant and entrusting the fortunes of the nation to their care. In any case, it is clear that Japan developed its bureaucrat-dominated social and economic system by assigning authority to the bureaucracy, and that the public has accepted this system.

Another source of pressure for economic reform in Japan is the increasingly borderless nature of the global economy. Globalization today refers to the accelerating movement not only of goods and services but also of money, production systems, technology, and information across borders, involving almost every country in the world. In other words, far more countries and products are now involved in international transfers than in the past. Under these conditions, competition arises

between economic systems (including laws and taxation), and unattractive systems are selected out.

In the 1990s, the economic performance of the Anglo-Saxon countries, with the United States in the lead, has been remarkable. The United States and Great Britain, in particular, took the first steps to deregulate their economies in the 1970s and have also made striking progress in fiscal reconstruction. New Zealand and Canada have also been successful in reconstructing their public finances. In Europe, although the movement toward structural economic reform has been relatively slow, national governments seeking to qualify for the single European currency are pressing ahead with fiscal reconstruction, and there is also a growing trend toward privatization. It should be noted that even Sweden, which was one of the more conservative countries in Europe, has carried out radical regulatory reforms. Japan has thus been left behind.

If Japan is to survive in an era of mega-competition with the dynamic middle-income economies of Asia and the developed nations of Europe and North America, whose structural reforms have increased their efficiency, it must achieve a scale and speed of reform that will make up for 20 years' delay.

The Ideal Society: Free Choice and Equal Opportunity. In a society that places importance on democracy and liberal market economics, there are as many ideal societies as there are individuals to make choices. One could say that the particular shape a society takes is the result of those choices. Neither bureaucrats nor politicians can draw a blueprint of the ideal society in advance.

The key points, therefore, are to recognize individual freedom of choice and establish the principle of individual responsibility for outcomes. In terms of the economic system, free consumer choice and free competition among suppliers, according to clear rules, must be promoted by discarding the policy of protecting suppliers under bureaucratic guidance and instead entrusting economic and social activity to market mechanisms.

From the same viewpoint, greater emphasis must be placed on equality of opportunity. Traditionally, Japan's ethical code has not permitted freedom, and we have put security and "equality of outcomes" first. We must now make Japan a society in which winners are honored; losers are encouraged to try again; and nonconformists and persons with different abilities can thrive.

The Basic Approach to Regulatory Reform. As a basic stance, sweeping deregulation is called for, leaving in place little more than the six codes of law: the Constitution; the Civil, Criminal, and Commercial Codes; and the Codes of Civil and Criminal Procedure. Even regulations justified on safety grounds should be abolished wherever they may restrict competition, in favor of a regulatory system based on personal responsibility. Proponents of regulation ignore the fact that the existing order suppresses competition and increases costs to other industries and the public. A breakdown of the existing industrial order and a level of competition that some might view as excessive are exactly what is needed to revitalize the economy.

Moreover, regulation robs even regulated industries of business opportunities. Regulation of the financial sector has led to hollowing-out of the Tokyo capital

market; regulation of the airline industry has meant that Japanese vacationers increasingly head overseas; and regulation of coastal shipping is strangling Japan's ports. In the absence of deregulation, an aging and deficit-ridden Japan is likely to face economic ruin in the twenty-first century.

It is sometimes argued that if the economy is left to market forces, the law of the jungle will prevail; that is to say, smaller and weaker companies will be driven out by large companies, with socially unacceptable consequences. But weakness and inefficiency are not one and the same. Weakness means inefficiency in the case of a supplier, and it is only right that inefficient suppliers (regardless of their size) should be weeded out. A weak individual of society should be protected, but there neither can nor should be protection for inefficient suppliers. Living sheltered by regulation in a world without competition may be comfortable for those concerned, but it brings high social costs and narrows the range of consumer choice. There are countless examples where protection of suppliers who should have been selected out has subsequently given rise to a colossal burden.

One of the ideals for which Japan aimed after World War II was to maintain a stable society with a high-level economy by means of lifetime employment. Although it has come to be regarded as a traditional Japanese-style employment practice, the lifetime employment system is actually a postwar phenomenon. But this kind of long-term, inflexible employment system requires investment; with its long lead time it is not suited to a society geared to competition. Amid intensifying international competition and economic change, employment must not rely solely on the lifetime system, but must inevitably diversify. Measures are needed to ensure that the trend toward greater labor mobility and diverse forms of employment is not impeded, while the government should address the issues of securing jobs and taking care of the unemployed not at the level of individual companies or industries but by means of a comprehensive labor policy.

Proposals for Regulatory Reform in Japan

Promotion of Regulatory Reform. The government has tried repeatedly to pursue deregulation and administrative reform, but apart from privatization of the Japanese National Railways and NTT in the mid-1980s, it has been unable to achieve significant results. In the past year or two, there have been some notable successes in the relaxation of licensing and permits, but even these are not enough.

- 1. Fostering public support and establishing priorities (information and communications, finance, distribution, public works).** First, an ongoing effort must be made to show the concrete advantages of deregulation and accurately document the disadvantages of the consumer's present position. There is also a need to campaign in concrete terms against the harmful effects of excessive administrative authority.

Priority areas must be established where breakthroughs in regulatory reform can be made. Information and communications, finance, and distribution are especially influential as they affect all other sectors, and they are also areas of rapid change. Public works is another sector where reform would have a major impact, with results that are clearly visible to the public, since

pork-barrel politics, bureaucratic leadership, and the *dango* structure have led to a high degree of inefficiency.

- **Extending reform to the role of government as a whole.** Regulation should be approached not merely as a question of licenses and permits, but from the broader perspective of the proper role of government. Its scope must be extended to the system of publicly managed enterprises and special corporations, the provision of infrastructure, various assistance and subsidy programs, and social institutions in such areas as education, medical care, and social welfare.
- **Focusing on areas of general principle where progress can be made.** Making the most of “Agreement in Principle”: Institutional reforms that draw on general principles must be pursued by effectively utilizing a tendency to agree to regulatory reform in principle. In particular, a “fair administration law” strictly forbidding the exercising of legally granted authority for purposes other than those stipulated by law and the regulation of the activities of local governments and private corporations must be passed as soon as possible. The Administrative Procedure Law should be actively used, and a freedom of information system must be established. Together with encouraging active use of the Administrative Procedure Law, it is important to move ahead with institutional reforms that are essential to the promotion of competition, such as enacting a freedom of information law, creating a venture support system, and expanding the role of the Fair Trade Commission (FTC).

It would also be effective to identify movements for or against reform among political circles, the administration, and the private sector, and publish the positions taken by named individuals, including politicians and bureaucrats in charge of regulation. Strengthen the role of the authorities in charge of antimonopoly policy. The investigative role of the FTC must be strengthened. It will also be necessary to tighten enforcement of the antimonopoly law and increase the power of the FTC.

- **Simplifying and expediting legal action.** We must devise ways to make legal remedies more readily available through the courts and the FTC. The procedures for legally contesting economic regulations must be simplified, and legal know-how must be provided. Private-sector organizations that favor of reform, such as the Federation of Economic Organizations, should develop a support system to help individual companies challenge regulatory barriers. For example, they could provide legal representation and practical know-how regarding the Administrative Procedure Law.

The number of lawyers should be increased by at least doubling the number of those who pass the state bar examination, and the monopoly of lawyers on legal work should be ended by allowing judicial scriveners and others to perform related services.

- **Relocating administrative and political functions outside Tokyo.** Moving the functions of the capital to a neutral location with respect to national data will significantly reduce administrative functions. eliminate the cozy relationship between administrative institutions and industrial organizations, and lessen the influence of administrative functions on citizens' lives. (The relocation of the functions of the capital is currently under investigation and a suitable place is expected to be chosen by August of next year. In the event of relocation, the cutting of the number of central government employees by about half is being considered.)
2. **Establishing regional experiments and special cases.** Experimental areas for regulatory reform could be designated, and within those areas certain regulations could be relaxed or abolished on a trial basis. In providing services that cannot be left entirely to the market mechanism, such as education and health care, designated local governments could experiment with partial liberalization.
 3. **Exercising political leadership and improving lawmakers' planning and research abilities.** If political initiative is to be exercised, it is essential to establish the personnel and the system which will make this possible.

The secretariat of the Diet must be given stronger powers, and nongovernmental organizations (NGOs) that can assist the government in formulating and implementing policy should be fostered. The number of positions in the government to be appointed by ministers must be increased, and bills presented by the Diet members should be discussed at the Diet on a priority basis.

Economic organizations, think tanks, and journalists should bring renewed vigor to the policy debate, and politicians should improve their research and planning abilities and present policy alternatives accompanied by projections and evaluations.
 4. **Reforming institutions and attitudes within the regulatory system.**
 - **Reforming the attitude of the bureaucracy.** The bureaucrats must realize that a structure that relies heavily on regulation will ultimately lead to the decline of the industries it is supposed to protect, and that the status of the ministries in charge will decline along with them.

The bureaucratic and regulatory systems must also be reformed so as to channel bureaucratic talent away from defending regulation and into regulatory reform and competition policy.

- **Improving the bureaucrat personnel system.** From the personnel viewpoint, the bureaucratic structure in Japan is extremely inflexible. First, the lifetime employment and seniority systems in each government ministry and agency must be abolished and the interchange of personnel with the private sector and academic societies extended. To this end, it will be necessary to reform the Government Officials Act. Second, reforms should be promoted through a political initiative to ensure that the personnel system is not dominated by seniority and that officials only hold important posts for two to three years. Third, restrictions must be imposed on the practice of appointing former officials to posts in related companies or special corporations, and the utilization of high-ranking officials in think tanks should be further promoted.
5. **Reforming consumer attitudes and developing consumer lobbies.** It is necessary to change consumer attitudes so as to actively promote a deeper understanding of the role of competition and market mechanisms, and to enlist consumer power as a driving force for regulatory reform from above.
 6. **Decentralizing power and reforming regulation.** It is essential to strengthen local governments' jurisdiction and fiscal capacity by decentralization of power. In particular, competition between cities must be promoted by extending the powers of local governments to disseminate information, set up sight-seeing and cultural facilities, and develop special educational institutions.
 7. **Expanding and reforming the judicial system.** In order to curb the bloating of government, the judicial system must be improved to facilitate legal solutions. The inadequacy of Japan's judicial system is twofold: first, the judiciary lacks sufficient expertise in dealing with economic matters, and second, its handling capacity is limited, mainly due to the small number of judicial officers and lawyers. It is thus necessary to expand and reform the judicial system with regard to these matters.
 8. **Campaign to promote the formation of a democratic and liberal society.** Politics in Japan is extremely sensitive to public opinion. Public opinion is, in turn, strongly influenced by the newspapers and television. To ensure that deregulation is implemented thoroughly, it is vital to conduct a public campaign.

By means of the press clubs in each government ministry and agency, the newspapers in Japan have tended to act as mouthpieces for the bureaucrats. Recently, however, as a result of failures in the bureaucratic system and resulting scandals, the public has become strongly critical of the bureaucratic system. Citizens' confidence in bureaucrats has never been at lower ebb in the postwar period, indeed in the whole of the twentieth century. This presents Japan with a great opportunity to transcend its culture of bureaucratic supremacy.

With the Meiji Restoration, Japan turned its back on the *samurai* culture. Under the Meiji government official system, very few were able to take advantage

of the fact that they were former *samurai*. In this sense, Japan is a rare case of a country that was able to modernize its system virtually from a clean slate.

After World War II, Japan completely repudiated its military culture. In present-day Japan, military personnel (of the Self-Defense Forces) or retired military officers do not command respect simply because of this status. The situation is remarkably different from prewar Japanese society, in which the military enjoyed superior status.

Today, we must transcend the culture of bureaucratic supremacy, and we are in a position to do so. It is vital that we inform all Japanese citizens that the unlimited use by bureaucrats of legally granted authority for purposes other than those stipulated by law, and their guidance or regulation of local governments and private corporations, constitutes an infringement of citizens' fundamental freedom.

Specific Proposals for Regulatory Reform in Japan

Agriculture

- Immediate opening of the market in real terms. Abolition of import volume restrictions in the broad sense. Approval of tariffs of up to 100 percent for goods presently subject to import volume restrictions.
- Liberalization of entry to production and distribution (abolition of production adjustment, liberalization of corporate purchase of agricultural land and agricultural management).
- Abolition of government rice purchases and the acreage reduction policy. Mandatory stockpiling of a fixed proportion of rice for reasons of food security. Transfer of jurisdiction over agricultural subsidy programs to local governments, together with the necessary fiscal resources.
- Abolition of government supports for agriculture, and lifting of exemptions to the antimonopoly law. Liberalization of capital entry to agriculture.
- Reinforcement of government monitoring against improper attempts to corner the market of agricultural products.

Manufacturing Industries

- Construction machinery:** Investigation of domestic–foreign price gap.
- Weapons:** Investigation of domestic–foreign price gap.

Transportation

- Aviation:** Complete liberalization of routes and the number of flights, regardless of airport capacity restrictions on landing right allocations; deregulation of fares. Introduction of a competitive bidding system for the allocation of landing rights at airports with capacity restrictions. Abolition

of foreign capital restrictions. Liberalization of international civil aviation agreements on a reciprocal basis.

- ❑ **Bus services:** Liberalization of market entry and fares. Subsidization, through competitive bidding, of unprofitable services that meet social needs.
- ❑ **Taxis:** Liberalization of total vehicle numbers and operating areas. Deregulation of the minimum number of vehicles per fleet. Deregulation of fares (while requiring fare display).
- ❑ **Railways:** Complete liberalization of fares outside major urban areas. Introduction of price-cap system in major urban areas. Complete privatization of all Japanese railway companies. Liberalization of freight charges and entry to the rail freight sector.
- ❑ **Trucking:** Liberalization of operating areas. Deregulation of the minimum number of vehicles per depot. Abolition of the right to order price changes and the price notification system. Deregulation of total vehicle numbers.
- ❑ **Coastal shipping:** Abolition of tonnage adjustment cartels; deregulation of market entry.
- ❑ **Port cargo handling:** Deregulation of market entry and prices.

Communications

- ❑ **Delivery of first-class mail:** Liberalization of market entry (allowing delivery of first-class mail by private companies); introduction of regulations to preserve confidentiality. Introduction of a price cap system to the regulation of postal rates. Privatization of postal operations.
- ❑ **Telecommunications:** Liberalization of market entry. Deregulation of rates in the stationary communications sector. Removal of foreign capital restrictions for NTT and KDD.
- ❑ **Broadcasting:** Liberalization of entry to multi-channel TV market. Conversion of NHK reception fees to pay-TV basis. Privatization of NHK.

Electricity, Gas, Water, Energy

- ❑ **Electric power:** Separation of power generation and distribution. Liberalization of entry to the power generation market. Tax incentives for non-oil-fueled generation. Liberalization of retail power consignment and establishment of an oversight mechanism for the rates thereof. Introduction of a price cap system.
- ❑ **Gas:** Liberalization of market ends and retail consignment. Introduction of price cap system.

- Water supply:** Privatization. modernization of rates. Introduction of a price-cap system.

Finance and Insurance

- Liberalization of entry by financial institutions to one another's fields:** Liberalization of market entry by companies from other sectors.
- Liberalization of corporate bond issues:** Repeal of the Corporate Bonds Registration Law.
- Banking:** Liberalization of market entry (clarification of entry criteria), rates, and financial products; improvement of depositor insurance; deregulation of cross-entry to related business fields.
- Postal savings and insurance:** Breakup and privatization of both systems. (Note: Objection by some members.)
- Fiscal investment and loan institutions:** Review and streamlining of functions, followed by privatization or contracting out to the private sector.
- Securities:** Liberalization of market entry, rates, and financial products; abolition of securities transaction tax.
- Insurance:** Liberalization of market entry, premiums, and financial products.

Distribution (Wholesale and Retail)

- Retail sector:** Complete abolition of the Large-Scale Retail Store Law. Regulation to be carried out freely at the local government level.
- Newspapers, magazines, etc.:** Abolition of the resale price maintenance system.

The Legal Profession

- Increasing the number of lawyers by revising the character of the state bar examination as a supply–demand adjustment mechanism.
- Removal of restrictions on foreign lawyers practicing in Japan.
- Liberalization of the conduct of legal business by judicial scriveners and others in related fields.

Medical Care

- Redesigning of a rational and integrated system of medical services through information disclosure.
- Medical institutions:** Liberalization of entry by profit-making corporations. Abolition of the National Health Insurance drug price criteria.

Abolition of marginal profits on drugs due to differences between market prices and NHI prices. Establishment of an integrated system including introduction of a flat-payment system for treatment of medical service fees. Full disclosure of information on diagnosis and treatment.

- Drugs:** Investigation of the domestic–overseas price gap; promotion of full competition between companies (promotion of active competition with foreign-affiliated drug firms, early approval of overseas clinical data), and disclosure of information on the drug evaluation process.
- Medical devices and appliances:** Investigation of the domestic–overseas price gap; promotion of full competition between companies (promotion of active competition with foreign-affiliated drug firms, approval of overseas clinical data); and acceptance of international quality standards, including GMP.
- Reviewing bodies:** Expansion of the capacity of reviewing bodies for drugs, treatment, and other areas of medical care; in particular, strengthening of the monitoring function of health insurance societies. Full disclosure of information.

Leisure and Entertainment

- Basically, liberalization of the entire sector except with regard to criminal acts.
- Pachinko parlors:** Removal of controls on premiums and conversion of premiums to money, and abolition of self-imposed controls.
- Cycle and horse racing:** Deregulation of market entry.
- Liberalization of casinos and gambling.**
- Deregulation of golf club memberships.**
- Relaxation of the scope of the Law on Control Improvement of Amusement Business** to exclude certain types of business (inns, discos).
- Relaxation of the regulation of theme parks and amusement parks** by separate laws governing each type of facility.
- Relaxation of restrictions on the location and seating capacity of theaters and halls.**

Infrastructure

- All public works:** Investigation of domestic–foreign price disparities. Full introduction of competitive bidding. Implementation of reconfirmation by the party placing the order. Abolition of the advanced pricing system. Introduction of corporate accounting practices to government accounting and

reporting. Establishment and operation by private sector of infrastructure for which fees can be collected from users.

- Ports:** Abolition of the approval system for port user charges. Privatization of ports.
- Expressways:** Review of the expressway toll pooling system (division based on routes, blocks, or functions). Levying of maintenance and administration costs only, after retirement of construction funds. Privatization of the Japan Highway Public Corporation and related bodies.
- Airports:** Privatization of airports and air traffic control.

Land Use

- Deregulation of land use; retention of land holding taxes; abolition of land transfer taxes.

Decentralization of Power

- Reduction of subsidies by half and conversion to block grants; reduction of the distribution of local allocation tax by half, by raising local resident taxes and lowering income taxes (with neutrality of tax revenue); liberalization of local bond issues.

Third Plenary Conference

The third conference, held at the George Bush Presidential Library outside Houston, Texas, in December 1997 was devoted to security and to energy and environmental problems. Members of the U.S.–Japan 21st Century Committee also considered the burgeoning financial crisis in East Asia, which had begun in July 1997. Members prepared and discussed papers on all these topics.

The Security Situation in East Asia

The two sides agreed that the U.S.–Japan partnership, based on the Mutual Security Treaty and the democratic values we share, has been enormously successful in maintaining peace and stability and promoting the remarkable economic development during the past several decades in the region. The Committee agreed that, in the post–Cold War era, the U.S.–Japan relationship, including the forward deployment of U.S. forces, would continue to play a key role in maintaining stability in the region. The Committee believes that the two governments are doing an excellent job of managing both the strategic, long-term and delicate, short-term issues in the relationship. In particular, the Committee believes that the recently completed “Defense Guidelines” significantly will improve the ability of the two countries to cooperate in times of emergency—without being a threat to other countries of the region—and it welcomes an increased, but limited, role for the Japan Self Defense Forces in the defense of the areas surrounding Japan.

Although the Committee agreed, based on common understanding, that the governments of the United States and Japan are on the right track, it felt the two countries must do even better, and developed the following recommendations.

The two sides should:

- ❑ Make persistent efforts to explain and obtain public understanding of the critical role in the future of the security relationship to preserve peace and stability in the Pacific. They should pay greater attention to the important implications of economic stresses on the U.S.–Japan security relationship. Public support is crucial to maintaining these ties.
- ❑ In consideration of the importance of maintaining a credible U.S. military presence in Japan, take concrete steps to minimize the burden on the local populace.
- ❑ Examine jointly the future shape of Asia and the long-term force structure required for a credible and fully adequate U.S. military presence in East Asia.

- ❑ Exercise defense cooperation based on joint defense planning and mutual cooperation planning between the United States and Japan in order to implement the new “Defense Guidelines.” Japan should secure expeditious passage of legislation to implement these new “Defense Guidelines.”
- ❑ Intensify consultations among Japan, the United States, and the Republic of Korea in order to prepare for what undoubtedly will be unpredictable change on the Korean peninsula; lay the groundwork for dealing with post-reunification challenges; and ameliorate the impact of the current financial crisis on the Korean Energy Development Cooperation (KEDO) project.
- ❑ Encourage and facilitate dialogue between the People’s Republic of China and the Republic of China on Taiwan to reduce tensions in the Taiwan Strait and enhance the prospects for an eventual peaceful resolution of the problems.
- ❑ Cooperate to increase Japan’s participation in United Nations (UN) peace-keeping operations, both materially and financially, and, in the context of UN reform, seek to obtain a permanent seat in the UN Security Council for Japan.
- ❑ Increase contacts between Diet members and members of Congress. Exchanges and visits are necessary to acquaint members with each other’s interests and concerns, and to receive first-hand exposure to global interdependence.
- ❑ Support the Manila declaration of the Association of Southeast Asian Nations (ASEAN) as a step toward resolution of South China Sea claims.

The two sides discussed the security environment and agreed to propose a dialogue among the four countries that play key roles in the stability and prosperity of East Asia—China, Russia, the United States, and Japan. This could begin with dialogues on such issues as economics, energy, environment, food, water supply, and population. Depending on the results, the topics may extend to politics and security issues, and may eventually lead to a meeting of the heads of state.

East Asia’s Financial Situation

The collapse of many financial enterprises in East Asia necessarily poses important risks for regional and global economic interests. With increasing seriousness, this crisis has been building since the end of Japan’s “bubble economy” in 1990. Thailand, Indonesia, and Malaysia encountered problems beginning earlier this year, and Korea came under fire more recently. Foreign exchange rates and stock prices are suffering sharp declines on East Asian markets, further deepening the crisis.

The causes of the crisis are a combination of weakness in banking systems, excessive government support for credit expansion, excessive resort by business to dollar credits, and excessive use of leverage. These conditions led to sharp declines in asset values and to a general loss of confidence. Many banks, investment companies, real estate companies, and other enterprises cannot pay their debts or collect from their borrowers.

The members of the U.S.–Japan 21st Century Committee believe that economic fundamentals in East Asia including Japan are strong. These economies can recover and prosper once they address the series of structural problems that led to or worsened the current crisis. Both immediate and longer-term actions are necessary to overcome this crisis and establish a new and sound foundation for recovery and renewed growth in East Asia. Short-term actions should include:

- ❑ Insolvent financial institutions must be identified and consolidated promptly or foreclosed as appropriate. Investors and managers in them must accept their losses. Only in this way can confidence be restored in the many enterprises that are sound. Banks' credit evaluation procedures, credit evaluation practices, government regulatory and supervisory practices, and transparency practices need to be strengthened significantly.
- ❑ In Japan, the popular reaction has been that the government (meaning the taxpayer) should not rescue failing financial institutions. Ordinary depositors in banks, insurance policy holders, and annuity beneficiaries, however, have a just claim for protection. Government support or insurance must be provided to them as necessary. Japan's Deposit Insurance Corporation must be strengthened to protect depositors.
- ❑ All countries must avoid imposing restrictions on imports, resisting pressure to adopt such short-term but ill-advised palliatives. Foreign exchange depreciation already has given a strong boost to exports in affected countries.
- ❑ This financial crisis is generating new pressure on East Asian countries to export—especially to the United States, which already has a large global trade deficit. The United States must preserve its commitment to a balanced federal budget and should do all it can to increase domestic savings. Both the United States and Japan for a time, however, should expect increased imports from East Asia as a necessary part of keeping the many sound parts of Asian economies moving.
- ❑ Japan should lower taxes rather than resort to increased public works spending to stimulate the economy. Imports should be expanded, primarily by promptly resolving the credit crunch; secondarily by promoting genuine deregulation and effective administrative reforms; and, third, by making bold and substantial tax reductions. Over the longer term, government expenditure should be reduced and fiscal balance achieved.

- ❑ Financial problems in East Asia are not the same as those encountered in past foreign exchange crises. Advice from the International Monetary Fund (IMF) must focus on the critical need to provide transparency and eliminate over regulation. All countries must support this work of the IMF and other international financial institutions. IMF advice to borrowing governments must be heeded, despite the pain. Business enterprises encountering credit difficulties face problems that require management skills. For this purpose, much stronger and more effective corporate governance is called for.

Longer-term measures also are needed to provide early and effective protection against over-extension of credit and to prevent competitive devaluations that both cause and deepen financial crises. The basic principle must be to let market forces determine foreign exchange rates.

- ❑ Foreign exchange stability must be achieved in an open exchange market environment. Government intervention, especially that to maintain lower-than-market values for competitive reasons, cannot be condoned and cannot succeed for long. At the same time, strong government leadership should be devoted to deregulating markets and increasing transparency so that market values are based on facts, not illusions fostered by concealment.
- ❑ Consideration should be given to creating a stronger network of consultation and support among East Asian central banks, including China's. This would include expanded swap arrangements among them, and should include expanding a repurchase agreement network as well.
- ❑ The resources and leading capacity of the IMF should be expanded while maintaining current IMF standards and conditionality for the use of its resources. Committee members rejected proposals to establish an Asian monetary fund without IMF conditionality.
- ❑ Coordination among APEC member countries already initiated should be expanded with a view to bringing peer pressure to bear in favor of deregulation and increased transparency. APEC also should promote the adoption of internationally accepted accounting standards for all financial enterprises engaged in world markets.
- ❑ The internationalization of the yen as a reserve currency and an international medium of exchange should be promoted. A first step in that direction would be for Japanese authorities to establish an important and active liquid market for yen assets, which could become a repository for reserve assets and would be attractive to business and individual investors in Japan and abroad.
- ❑ APEC's trade liberalization program should be reaffirmed and advanced. It should not be delayed because of present economic difficulties.

- Committee members welcome the recent agreement in the WTO to liberalize international financial services further, and in particular the WTO's greater emphasis on increased transparency.

East Asia's Energy, Environment, and Population Issues

The global economy can grow only at the rate needed to sustain high levels of development and expected population growth if it can find the proper balance between expanding supplies of energy and preserving the environment. Creating this balance raises urgent problems in Asia, where the rapid rate of economic growth is creating a vast new demand for energy within its developing states, although the economics of East Asian countries have become more uncertain. This demand affects both Asia's need to expand its internal energy supplies and the size of Asia's energy imports. It affects both key environmental problems like acid rain and key security problems like ensuring the stable flow of Middle Eastern oil exports.

Market forces can meet many of Asia's energy needs, but the members of the U.S.–Japan 21st Century Committee believe that the United States and Japan must cooperate closely in encouraging the nations of Asia to pursue the proper energy and environmental policies and stress their importance to their population. They should ensure that Middle Eastern states expand their oil and gas productive capacity and the security of the resulting exports. Actions should include:

- Estimates differ as to how much more oil and gas Asia must import from the Middle East and the Persian Gulf. Estimates broadly agree, however, that Asia will more than double its oil imports from the Middle East by 2010–2015, and that China alone will increase its oil imports from the Persian Gulf by a factor of four. By 2010–2015, Asia will consume roughly two-thirds of all the Persian Gulf's oil exports. The United States and Japan therefore should cooperate in dealing with four aspects of this change: (1) work with states and energy industries in the Persian Gulf to ensure that the proper expansion of production capacity takes place; (2) ensure that it is practical to more than double the tanker traffic moving from the Middle East to Asia; (3) examine the security implications of the fact that Asia is becoming the dominant user of Persian Gulf oil and gas exports; and (4) examine the major changes in investment and trade patterns that will result from Asia's new dependence on Middle East oil and their impact on U.S. and Japanese economic policies.
- U.S. and Japanese economic cooperation in research and development and technology transfer are needed to ensure that Asian states, especially China, can meet their goals to expand the generation of nuclear power using the safest technology available. They rapidly must expand their planned use of nuclear power if shortages develop in other energy resources or they present major environmental problems, and cooperate to ensure that Asian states

recycle fuel and dispose of nuclear waste in ways that are safe and do not encourage the proliferation of weapons of mass destruction.

- ❑ Asia, led by China and India, is becoming the world's dominant user of coal. Estimates differ about the scale of the increase, but China's coal use is expected to double by 2010–2015, and coal already is a major source of Asia's problem with acid rain. The United States and Japan should cooperate to ensure that China and other coal-using states can have the capacity to mine and move the fuel, convert as rapidly as possible to cleaner uses of coal, and deploy more advanced forms of "clean coal" technology cost-effectively at commercial scale.
- ❑ Natural gas is another major source of cleaner energy. Market forces already are expanding the supply of gas to Asia, but Japan and the United States must cooperate in several areas. An expansion of gas use is the preferred way of meeting Asia's needs. To reduce China's dependence on coal, it also will be necessary to encourage Russia to expedite the development of its gas fields and pipelines and to examine ways to obtain gas from Russia and Central Asia. China and the states of Southeast Asia should be encouraged to resolve the competing claims in the South China Sea and other waters that slow the development of Asian gas resources. Finally, the United States and Japan need to cooperate in examining how Persian Gulf states can best be encouraged to expand their exports of natural gas.
- ❑ The United States and Japan should work together to save energy and preserve the environment. First, they have to revitalize their energy research and development programs for advanced forms of nuclear power; clean use of coal; such forms of renewable energy as solar and wind; such clean uses of energy as fuel cells, electric cars, and hydrogen; and new forms of advanced energy technology. The United States and Japan should work to ensure that these new technologies are cost-effective at commercial scale in forms that can be adopted by the developing countries of Asia.
- ❑ With regard to energy and environmental problems, it is important to make efficient use of energy by the development of today's technologies. There is room for improvement in the efficiency of vehicles.
- ❑ It is worth exploring such a tax on energy as a "carbon tax" for saving energy and protecting the environment. The Committee proposes that the United States and Japan seriously examine such options at official and private levels.
- ❑ The United States and Japan also should review the opportunities to craft an effective multilateral agenda for the Asia-Pacific region in transnational environmental challenges.

- ❑ Although many developing countries in Asia are rushing to expand their energy supplies, there are many points to be encouraged in their private, state, and consumer sectors to use energy more efficiently. As one of them, the United States and Japan should cooperate to employ the more efficient uses of energy that have been adopted in many industrialized countries and encourage their industries to export such technology.
- ❑ The present energy models used in estimating global supply and demand have many contradictory data, analytic methods, and assumptions. They also often fail to properly distinguish demand and fuel use by sector. The United States and Japan need to develop a better common understanding of the trends in energy use and do so by country and demand sector. Such an understanding would highlight both the energy supply and environmental problems inherent in the growth of the transportation sector versus the industrial sector.
- ❑ The challenge of sustainable development and environmental enhancement are interwoven with the questions of energy production and use. Once again, Asia—with the highest projected increases in emissions into the air and water—is the global area with the greatest potential for degradation and the largest opportunity for constructive progress. The United States and Japan each have over 25 years of experience in developing market-based and regulatory systems of environmental protection. Building on the CSIS Enterprise for the Environment, the governmental, private, and NGO sectors of the two countries should examine their relative successes and failures in these programs to perfect further their systems by sharing and comparing their successes and failures to date.
- ❑ The growth in Asia's demand for energy and environmental problems are a function of its population growth. The United States and Japan should encourage the spread of family planning through measures like the empowerment of women, including advanced education.
- ❑ The population pressures in the world and Asia may apply increasing pressure on the supply of cereals. The United States and Japan should cooperate in examining measures to encourage the market to provide adequate supplies.

All these recommendations lead to a broader conclusion. As the economic leaders of the region, the United States and Japan should work together to develop a comprehensive strategy to help Asia obtain the energy resources it needs and to develop methods of reducing pollution that are feasible and economically competitive. They must look beyond a narrow focus on energy interruptions or the environmental issue of the moment to develop a true strategy for the twenty-first century.

What the U.S.–Japan Alliance Does for the United States

The Importance of the U.S.–Japan Security Alliance

In the 45 years since the first U.S.–Japan security treaty was signed, history has demonstrated the wisdom of those U.S. and Japanese leaders who had the vision to bring our two countries together in a defensive alliance. Even though the alliance in its earliest days was a product of U.S.–Soviet confrontation, it rapidly evolved into a broad and sturdy foundation that goes beyond military necessity to a relationship encompassing economic, political, cultural, and developmental matters as well. This relationship has been responsible for much of the good that has taken place in East Asia and has facilitated constructive engagement in undertakings elsewhere.

The alliance, by relieving Japan of budget-busting defense expenditures and the need to play an energetic political role on the international stage, allowed Japan to concentrate on economic reconstruction, large-scale capital investment, and modernization of its economy. These were key factors in Japan's becoming the world's second economic power and a major player in international finance and investment. For many years, Japan has been an essential player in virtually every major multinational undertaking, whether it be peacekeeping operations under the UN, funding humanitarian assistance, or financing KEDO.

The collapse of the principal threat to Japan's security, the Soviet Union, has encouraged some in both the United States and Japan to assert that the security alliance as a product of the Cold War no longer is needed. The rape of a young girl by U.S. sailors on Okinawa in 1995 focused attention on Okinawa's resentment of its status in Japan and drew closer attention to the U.S.–Japan alliance and its intangible political costs. It also raised questions about the appropriate scale of U.S. forces deployed in East Asia.

On the whole, the U.S.–Japan alliance and the forward deployment of U.S. forces have served the interests of both countries, as well as those of the region. A few specific examples illustrate this point.

- Japan has been free from threat of invasion or coercion for the past 52 years, a principal objective of the 1952 treaty.
- A second Korean war has not erupted; there has been peace in Northeast Asia.
- The expansion of the pre–Mikhail Gorbachev Soviet Union was turned back in Asia, long before its influence receded in Eastern Europe and the Middle East.
- The forward deployment of U.S. forces, generously financed by Japan's host-country support program, has permitted the United States to play its essential political balancing and economic roles in Asia. Without the alliance, U.S. forces could not fulfill such tasks.
- The presence of U.S. forces has proved to be a benign and stabilizing

influence, deterring the intimidation of one country by another or the rise of a regional hegemon, and it has enabled the countries of the region to concentrate on nation-building and economic construction without the burden of escalating defense budgets, which could lead to destabilizing arms competition. As a large and geographically distant power without territorial ambitions, the United States has been widely trusted and able to provide effective leadership as the region coped with numerous, difficult issues.

- ❑ The strategic relationship effectively has limited the proliferation of nuclear weapons and deterred the acquisition of other weapons of mass destruction.
- ❑ The alliance has permitted Japan to limit its own forces, foregoing power-projection capabilities that others in the region would view as a destabilizing threat.
- ❑ The alliance has provided the framework for broader U.S.–Japan cooperation by emphasizing the importance of long-term strategic interests rather than day-to-day irritations. This framework provides powerful incentives for the world’s two most dynamic industrial and technological countries to contain disputes and to work together to address such larger issues as the environment, health, aging societies, drugs, and scientific discovery.

The Evolution of the Alliance

The first U.S.–Japan security treaty was concluded to allow the United States to continue to deploy forces in Japan after the 1952 peace treaty went into effect. U.S. leaders, having just experienced the fall of the nationalist government in China and the Korean War, were concerned about future communist expansion and believed it essential to be able to continue to operate from U.S. bases in Japan in support of allies throughout Asia, as well as in the defense of Japan.

Japanese leaders also were concerned about the threat from the Soviet Union and determined to retain the presence of the United States and its “nuclear umbrella” to deter aggression. The arrangement was fair. The United States got bases from which it could carry out its Cold War strategy in Asia, and Japan received guarantees that the United States would come to its aid if needed.

The 1960 revision of the treaty eliminated occupation-era U.S. extraterritorial rights that were an infringement on Japanese sovereignty, but the revision process invited massive student protests, brought down a cabinet, and forced the cancellation of the first visit ever by a sitting U.S. president.

The Vietnam War and the use of U.S. bases, including military hospitals, in Japan to support the war were very unpopular in, albeit profitable for, Japan. Not only students, but virtually all media and a large share of the general population, had grave misgivings about the war, giving rise to almost daily street protests and culminating in the occupation of a major building on the Tokyo University campus. Japan’s government was firm in its determination to support the alliance, however; U.S. use of bases in Japan was not impeded, and the alliance survived the stresses of the Vietnam War.

The 1969 decision to return Okinawa to Japanese sovereignty, taken in spite of the requirements of the ongoing war in Vietnam, was one of the most astute diplomatic decisions of the Nixon administration. It healed a festering wound and demonstrated that the United States had no territorial ambitions in the Pacific, in stark contrast to the Soviet Union, which continued tenaciously to hold on to the Northern Territories.

The withdrawal of U.S. forces from Southeast Asia in 1975 appeared to many Japanese as a sign of the beginning of a general retreat by the United States to “fortress America.” President Jimmy Carter’s efforts to withdraw ground forces from South Korea caused further consternation. But some good came of these, for they caused the Japanese government to notice that the U.S. Congress was beginning to question spending for the defense of other countries—the “free ride” syndrome—especially those that were enjoying great economic prosperity at the expense, it was thought, of the United States.

This realization led directly to the initiation of the Host Nation Support Program in 1977, under which the government of Japan undertook to pay an increasing share of the yen-based expenses of U.S. forces in Japan. The Host Nation Support Program, which also underwrote much-needed large-scale construction projects, utilities fees, and the total cost of the local labor force, now amounts to more than \$5 billion annually (some 53 percent of the total cost to the United States, 70 percent of local costs of U.S. forces) and is vital to the U.S. ability to maintain forward-deployed forces.

At about the same time, U.S. and Japanese officials became concerned that there existed no framework to guide military commanders in planning for Japan’s defense. As a result, the 1978 “Defense Guidelines” were developed to fill this gap. Although the Japanese side was restrained in what it could do by constitutional interpretations that forbade the exercise of the right of “collective self-defense,” the exercise was successful in facilitating and expanding cooperation.

Perhaps the greatest strains in the post-1960 history of U.S.–Japan relations occurred when Japan was unable to provide human and very little matériel assistance in support of the UN-sponsored, U.S.-led multinational force that ejected Saddam Hussein from Kuwait in 1991. Japan faced a serious dilemma. Virtually every U.S. ally except Japan deployed forces; Japan appeared paralyzed. Only after the strongest application of pressure did it respond, albeit with a very generous financial contribution. By that time, however, the political damage had been done, and Japan failed to get the credit it deserved for its very real contribution. Although this episode did not rend the fabric of the security relationship, it did raise serious questions on both sides of the Pacific about Japan’s readiness to take risks and assume a fair share of the burden of maintaining order in the world.

The April 1996 Joint Declaration reaffirmed the importance of the alliance. The September 1997 agreement on guidelines, covering situations in the areas surrounding Japan, will permit, following the enactment of domestic laws, satisfactory support for U.S. forces in an emergency and authorize Japanese forces to engage in mine-sweeping and search activities in support of U.S. operations. This is a step in the right direction and will serve also to demonstrate to Americans that Japan is willing to assume a more equitable share of the risk as well as the burden

of maintaining peace in the area surrounding Japan, consistent with its Constitution.

The description of the alliance would not be complete without a brief discussion of Japan's Self-Defense Forces. Born as the National Police Reserve in the early 1950s, Japan's Self-Defense Forces have grown into a force of some 160,000 land, air, and sea personnel, equipped with the most modern defensive weapons and technology available. The Self-Defense Forces have been working more closely with their U.S. counterparts to prepare, within the limits of Japan's Constitution, for effective cooperation and coordination should the need arise.

Japan's solid political and matériel support for the U.S.–Japan strategic alliance during the Cold War played a crucial role in the victory of the West. The provision of bases enabled the United States to maintain a strong naval and air presence in East Asia that contained Soviet expansionism while the system collapsed from within. Moreover, Japan's steady support enabled the United States to meet its commitments to South Korea in deterring aggression from the North.

Challenge of the New Pacific

With the demise of the Soviet Union, a major threat to the security and stability of Northeast Asia disappeared, at least for the foreseeable future. The security situation in East Asia is better than it has been in decades; the standard of living the best in history. As yet, no successor to the Soviet threat has appeared, and the region has a breathing spell during which it can think about the future.

Nevertheless, potential sources of instability remain, and the United States and Japan must be alert for developments in these areas.

Korea. The greatest current threat to the peace of Asia remains the situation on the Korean peninsula. The tensions between north and south are unabated, and the prospects for reconciliation are dim at present. For the time being at least, North Korea's nuclear weapons program appears to be in abeyance, but it still maintains 1 million men under arms, many deployed near the demilitarized zone; it probably has some kind of chemical weapons capability; it conceivably even may have one or two nuclear weapons; and it possesses missiles that could threaten Japan as well as South Korea. Furthermore, a collapse of North Korea's regime could result in a last-ditch military action that could engulf the entire peninsula and, although sure to be defeated, would cause massive damage.

A complicating factor is that no one knows enough about the inner workings of the North Korean system to draw conclusions that will inspire confidence. Observers note that famine is spreading, but they are not sure of its extent and cannot predict with much accuracy what effect the famine will have on social stability, the ability of the ruling elite to remain in power, or the loyalty of the armed forces. Many expect that North Korea's food shortages, which are structural, will continue for some time.

The United States and Japan know that Seoul is within range of North Korea's artillery and that U.S. forces would react immediately in the event of an attack. It also is clear that both the United States and Japan would be called upon to help in the reconstruction of a united Korea at some point in the future, whether

unification occurred as a result of war, the collapse of the North's ability to govern, or an evolutionary, negotiated process.

China. In China's emergence as a great power and in the developing relationships between China and the United States and between Japan and China there are many challenges, ranging from China's integration into the global economy to the construction of a durable security structure in the Pacific. China appears suspicious of the U.S.–Japan security relationship and has sought to portray the new “Defense Guidelines” for security cooperation as directed at China, even though the “Defense Guidelines” clearly are functional, not geographic, make no change to Japan's Constitution, and do not expand responsibilities long existing under the Mutual Security Treaty. China's military forces for the present do not threaten neighboring countries, but it is no secret that China's military modernization program, its rapidly growing economic strength, and some of its actions cause concerns about its future behavior in Asia.

Official policy in both the United States and Japan is that there is one China, that eventual reunification will take place peacefully, and that the will of the people of Taiwan will be respected. Even though both sides have given assurances that this is the case, politics are dynamic, and there is the possibility that one side or the other could be provoked into taking imprudent steps, posing serious challenges to the interests of both the United States and Japan.

Both Japan and the United States see as the best policy the maintenance of the status quo while political and economic developments and relations between China and Taiwan evolve toward peaceful unification of an agreed nature.

South China Sea. The United States and Japan take similar stances with respect to territorial disputes in the South China Sea between China and most Southeast Asian countries. The Committee takes no position on their merits, wants the disputes settled peacefully, and insists on freedom of navigation. China claims to respect freedom of navigation and has joined “track two” discussions suggested by ASEAN about resource and conservation issues. Although these are positive steps, China still refuses to negotiate, justify its territorial assertions, or consent to joint development schemes.

Russia. Russia's policy toward East Asia is not entirely clear, but in recent times Russia has sought to improve relations with both China and Japan. Russia's Asian territory is richly endowed with natural resources, and it wishes to retake its place as a recognized power in East Asia. The recent summit between Prime Minister Ryutaro Hashimoto and President Boris Yeltsin appears to have given both sides some flexibility in dealing with the Northern Territories issue. A peace treaty by the year 2000 could open the way to development of Russian energy resources for all countries in the region—especially China, whose energy needs are burgeoning.

A Common Strategic Vision for the Coming Century

During the Cold War, common interests and a growing store of common values sustained the alliance, even when Americans and Japanese did not exactly see eye-to-eye on such matters as Vietnam, policy toward China, or trade. Today, after

a period of uncertainty, a constellation of shared values and interests, in particular democracy, market economics (notwithstanding periodic arguments over macro-economic and trade policy), and peace in the Asia-Pacific region, has underscored the importance of the alliance as a vital instrument of national policy.

These shared values and interests enable a common strategic vision to further the principal goal of the alliance—the preservation, in a period of dramatic change, of peace and stability so that Japan, the United States, and all Pacific countries may enjoy economic growth and the political progress that is possible only under conditions of peace and stability.

The shared strategic vision of the United States and Japan involves, among other things, a long-term effort to build a durable structure of peace—a non-threatening balance of power—for the new Pacific, for which a strong and flexible U.S.–Japan strategic relationship is indispensable, and that fosters cooperative relations and discourages conflict among the great regional powers—China, Japan, Russia, and the United States—and with ASEAN and Korea. The important economic and political dimensions cannot be achieved in the absence of a strong and credible U.S. military presence in the Western Pacific, even in the hoped-for event that the threat of war on the Korean peninsula comes to an end. The U.S. presence is both a hedge against a less-benign Pacific and a stimulus to efforts to continue to create a peaceful community of Pacific states. It both inhibits threats and intimidation and, by making military response to aggression more credible, deters them as well.

A Cooperative U.S.–Japan Effort to Preserve Peace and Stability in Asia

In the task of fostering cooperation for the peace and stability of the Pacific, the security ties between the United States and Japan take on critical importance. Their role as the cement for the framework of peace in the Pacific has survived the Cold War. So long as Japan and the United States conduct their relations intelligently, the centrality and effectiveness of their ties will persist well into the twenty-first century. Indeed, if the alliance were to wither away, the promise of a Pacific Century would be undercut because Asia-Pacific rivalries would gain renewed force.

Contentious issues in the Asia-Pacific range from residual friction among Southeast Asian countries to the Russo–Japanese dispute over the Northern Territories, but most appear tractable to diplomatic resolution through ASEAN or, in the case of the Northern Territories, through the bilateral diplomacy of Russia and Japan, moved forward by the November Hashimoto–Yeltsin summit. There remain, however, three stubborn challenges to the peace in the near term: (1) tensions on the Korean peninsula; (2) the South China Sea; and (3) the relationship between China and Taiwan.

Korea. In addition to nurturing security cooperation among the United States, South Korea, and Japan, it is necessary to persevere in the effort to diminish tensions. In response to North Korea's agreement to freeze its nuclear weapons program, the United States, South Korea, and Japan are proceeding with KEDO to

construct a nuclear power generation capacity in the North, under safeguards to prevent the use of nuclear fuel for weapons.

The United States, South Korea, and China should persist in efforts to bring North Korea into serious “four-power talks,” the most promising vehicle for negotiations to end the long state of war. In the meantime, North Korea should be encouraged to continue its participation in nongovernmental “track-two” forums, such as the Council for Security Cooperation in the Asia Pacific (CSCAP) and the ASEAN Institutes for Strategic and International Studies (ASEAN-ISIS), and to join the ASEAN Regional Forum (ARF) at the earliest possible date.

The United States, South Korea, and Japan should engage in more intense consultation about the future of the Korean peninsula, including planning for collapse, upheaval, or reforms in North Korea, as well as appropriate security structures for the sub-region after such an outcome. There also is the need to increase transparency regarding food aid for the famine in North Korea.

South China Sea. The United States and Japan should support efforts by ASEAN states to persuade China to agree to negotiation or arbitration of the territorial questions. China’s hard stance has generated concern in Southeast Asia about its “aggressive” attitude, which also harms its interests in the speedy exploration of energy resources beneath the sea.

China. The United States and Japan must continue to make clear that the new “Defense Guidelines” are generic and not directed at China. In fact, the goal of the alliance in the post–Cold War period has changed from the traditional objective of “containing” the common threat from the Soviet Union to one of ensuring a stable security environment and striving to enhance common interests, values, and a stable peace for the region. Such common goals as freedom, democracy, respect for human rights, and the maintenance of regional peace also are important characteristics of the U.S.–Japan alliance in the post–Cold War period.

In the long run, as China continues to integrate into the world economy, it even may return to its earlier position of accepting a U.S. presence in the Western Pacific and the U.S.–Japan security relationship as essential elements of a durable structure of peace in the Pacific. Without the United States and its still-essential leadership, Asian countries would find it far more difficult to manage the considerable potential for instability that shadows the Pacific future.

The relationship between Taiwan and China continues to be a troubling issue in the region. Some issues cannot be resolved immediately, as Deng Xiaoping recognized. A conflict, which would seriously harm China’s fundamental interests, could result only from a tragic miscalculation. The United States and Japan need to encourage, through diplomacy with China and informal contacts with Taiwan, an intensive political dialogue between them, aimed at reducing tensions and enhancing the prospects for an eventual peaceful solution.

Regional Security Dialogues and Cooperation

ASEAN and the ARF are well-established institutions for the discussion of strategic issues in the Asia-Pacific. Now, it is important for the United States and Japan to expand their participation in the regional security dialogue, centered on the

ARF, and to increase Northeast Asian security dialogue among China, Japan, and the United States, and among Russia, Japan, and the United States. A security dialogue also should be undertaken among South Korea, Japan, and the United States in anticipation of Korean unification. It is important to stress here that success of this effort still rests on strong bilateral ties between the United States and its allies.

In addition, it would be useful to explore cooperative endeavors directed at disaster relief and the safety of navigation within the region. Although the environment, food security, and regional development are not, strictly speaking, security issues, they bear directly on the climate of security. All of them are fit subjects not only for U.S.–Japan joint projects but also for multinational endeavors to improve the prospects for the prosperity, health, and safety of the entire region.

The New U.S.–Japan “Defense Guidelines”

The commitment and presence of the United States is essential to the peace and stability of the region. In this context the United States and Japan agreed to the April 1996 Declaration on Security and undertook the process of drafting new “Defense Guidelines” within the framework of the treaty to make bilateral security cooperation more effective. To recapitulate them here is unnecessary. But it is important to make clear two points: (1) these “Defense Guidelines” do not expand the treaty, as some have alleged, but implement it; and (2) the “Defense Guidelines,” when implemented, not only will make U.S.–Japan security cooperation more effective, but also will make it more transparent to other countries and to the citizens of both the United States and Japan, upon whose consent the U.S.–Japan relationship relies.

Consonant with the treaty, the new “Defense Guidelines” do not address every issue or contingency. They cover situations that may affect the peace without specifying places, but it is obvious that they will have immediate utility in enhancing the deterrent to acts of war on the Korean peninsula.

Okinawa remains the most difficult base question, requiring a continual balance of mission requirements with the need, where practicable, to reduce the “footprint” of the U.S. military bases on the island in consideration of its citizens. In April 1997, the Diet enacted the Okinawa Special Measures Law, ensuring the unhindered use of facilities provided to the United States by the treaty. A new heliport is to be built in conjunction with the reversion of Futenma Airfield, and the partial transfer to mainland Japan of Marine training in Okinawa has begun. Although progress has occurred, the governments of the United States and Japan need to monitor this issue carefully. Even though the mission of the Okinawa-based Marines remains important for many reasons, including a Korean contingency, it is necessary to consider whether there are ways to conduct, over time, a phased or partial relocation of Marines within or outside Japan while preserving their ability to conduct their important mission.

In the long run, the U.S. presence in Japan and East Asia is not a matter of numbers of troops but of the maintenance of a robust deployed capability, sufficient to serve as a balancing factor and a guarantor of a climate of peace in the years ahead. Technology changes, and so do situations. As the situation in

Northeast Asia changes, adjustments should and will be made in the composition, location, and number of U.S. forces there. It is in this context that the apportionment of the respective roles and missions of U.S. forces and Japan's Self-Defense Forces will evolve in the coming decade, and the "Defense Guidelines" give the framework, within existing consultative procedures, for analyzing future requirements of U.S. forces in East Asia and for their presence and bases in Japan.

This evolution should include an examination of the scale and nature of U.S. forward deployments after the reunification of Korea. A robust U.S. presence still will be necessary; indeed, the risk is not that the United States will keep too many forces but that it may reduce its forces too much at a time in which it will be necessary to work out with other countries a stable structure of peace. In this context, it is important that Japan remain committed to paying a fair share, as it does today, of the costs of basing U.S. troops in Japan.

A Cooperative U.S.–Japan Effort to Enhance Global Peace and Security

Discussions of U.S.–Japan cooperation in the global arena usually focus on economic issues, macroeconomic coordination, and trade, or else on the contribution the two societies can make to environmental enhancement. After all, the United States and Japan are crucial to the global economy. In these two technological superpowers reside the best prospects for the evolution of cleaner and more efficient energy technologies.

The contribution of the United States is enormous and well-understood. Less known is Japan's growing support for security cooperation in the global arena. It is not just money—Japan's financial support for UN peacekeeping and related activities is large and crucial—but Japan's leadership in refugee programs and growing participation (within Japan's constitutional framework) in various aspects of UN peace operations.

UN Reform

There are numerous areas in which the United States and Japan should expand their cooperation in pursuit of the fundamental objective of the UN: the maintenance of international peace and order. In the first place, it is desirable for both countries to increase their policy coordination with regard to the activities of the Security Council, the reorganization of that body, administrative and budgetary reform of the system, the powers of the secretary general, and peacekeeping operations.

The United States and Japan, working together, can drive needed UN reforms. In particular, Japan should play a vigorous role in administrative and budgetary reform. In this and other contexts, it is important that Japan be elected a permanent member of the Security Council. The United States supports Japan's membership and, as part of an overall restructuring, it is essential that the two countries work together to secure at an early date UN adoption of an appropriate means of expanding the Security Council's permanent membership.

It is obvious that, without continued U.S. support, which is contingent on progress toward reform, the UN cannot contribute effectively to global security. It is also important, however, to emphasize that Japan can make a growing contribution to the international community and, as a result, to its relations with the United States. This will be particularly true if Japan continues to make the UN a central part of its diplomacy and actively contributes to and participates in UN activities aimed at maintaining international peace, including the deployment of UN-supported multinational forces and the conduct of peacekeeping operations.

The Middle East, Persian Gulf, and Central Asia

The Middle East and the Persian Gulf region continue to pose, along with unresolved tensions on the Korean peninsula, the most pressing current threats to global peace and security. It is vital that the Middle East peace process, in which the United States plays an indispensable role, receive a new infusion of energy. The loss of momentum in the talks is having a negative effect on the overall climate in the region. Although Japan does not participate directly in the process, it is in a position to provide diplomatic and economic support in the event the dialogue between Israel and the Palestine Liberation organization begins to move forward again.

The Persian Gulf remains the most important oil-producing region in the world. Japan provided \$13 billion to support the UN coalition in the Persian Gulf War and undertook mine-sweeping operations to help clear sea lanes for transport of oil from the Persian Gulf. Renewed conflict in the Persian Gulf would disrupt energy supplies and constrict global and Asian economic growth. To ensure peace, it is vital that Iraq comply with UN resolutions that are supported by the United States and Japan, and that Iran refrain from acquiring nuclear weapons in the future. In the meantime, the role of the U.S. military in ensuring the free flow of oil from the Persian Gulf will remain essential to world economic health. In light of the fact that Japan maintains diplomatic relations with Iran, it is important for the United States and Japan to play complementary roles in working toward a more durable state of peace in the Persian Gulf.

Worldwide attention is focusing on the energy resources of countries around the Caspian Sea. Resource development, economic growth, and political stability in Central Asia are matters of concern, not only to that region but also to Europe and the Asia-Pacific. In promoting resource development and using, where appropriate, development assistance to support growth, the United States and Japan can encourage dialogue and interchange among these countries to reduce the possibility of conflict. A stable, growing Central Asian region can serve as a peaceful buffer between Russia and China and provide a source of natural gas to help China reduce its dependence on heavily polluting domestic coal.

Transnational Issues

In the years after the end of the Cold War, transnational crime and large-scale disruptions have become a rising concern, impacting national security. In one category are found arms proliferation (including fears that access to nuclear, chemical,

and biological agents will spread, not only among states but to non-state actors), terrorism, international crime syndicates, and traffic in illegal drugs. Other causes for concern are the displacement of masses of people as a result of internal or cross-border violence, famine, and extreme poverty; degradation of the environment; and concerns about the future food and water supplies.

The United States and Japan are in a position to play a crucial role in the management of transnational issues. It is essential for them to coordinate their policies and to work with other countries to deal with these dangerous phenomena. Among other measures, the United States and Japan should establish issue-specific task forces, with participation from the public and private sectors, and designate cabinet ministers or senior officials to assume responsibility for these task forces.

Recommendations

The governments of the United States and Japan are doing a good job of managing their strategic relationship. The April 1996 summit declaration set just the right tone for their relations, and their ability to coordinate and plan will be enhanced greatly by the completion of the “Defense Guidelines” exercise. The intensity of bilateral planning and operations seem to be appropriate for the level of threat anticipated in the next decade, and consultative mechanisms are in place that both will give governments early warning and will provide the infrastructure for more intensified cooperation, if necessary. Nevertheless, there are several important issues that require action in order to ensure that the Joint Declaration becomes a reality. U.S. and Japanese leaders should:

- ❑ Make persistent efforts to increase public awareness of the critical role of the security relationship in preserving peace and stability in the Pacific, so as to retain the public support that is crucial to maintaining these ties. More attention must be paid to the impact of renewed economic stresses on the U.S.–Japan strategic relationship.
- ❑ Assure that the U.S. military presence in Japan does not risk incurring more political costs than gains because of inattention to the interests of the local populace, particularly on Okinawa.
- ❑ Examine jointly long-term force requirements for keeping a credible and fully adequate U.S. military presence in East Asia.
- ❑ Enact expeditiously Japanese legislation to implement the new “Defense Guidelines.”
- ❑ Assure that Japan continues to pay a fair share for the maintenance of U.S. forward deployments in Japan.
- ❑ Intensify consultations among the United States, Japan, and South Korea in anticipation of what undoubtedly will be unpredictable change on the Korean peninsula, among other things, to lay the groundwork for managing all aspects of post-reunification challenges.

- ❑ Coordinate support for the four-party talks, involving South Korea, North Korea, China, and the United States, to bring about a permanent resolution of the state of tension on the Korean peninsula.
- ❑ Encourage, through diplomacy with China and informal contacts in Taiwan, political dialogue between the states to reduce tensions and enhance the prospects for an eventual peaceful resolution of the Taiwan issue.
- ❑ Pursue the expansion of regional security discussions with Russia, China, and South Korea. In this context, the United States and Japan should seek to persuade China, in its own interest, to become more candid and transparent about its military modernization.
- ❑ Increase contacts between Diet members and members of Congress. Exchanges and visits are necessary to acquaint members with one another's interests and concerns, and to receive first-hand exposure to global interdependence.
- ❑ Intensify the participation of the United States and Japan in the ARF.
- ❑ Support ASEAN's Manila Declaration as a step toward resolution of South China Sea claims.
- ❑ Support efforts toward UN reform, including agreement on a new Security Council structure that includes Japan among its permanent members.
- ❑ Intensify Japan's participation, in accordance with its constitutional framework, in UN peacekeeping operations, both materially and financially. (The U.S. members take no position on the debate over constitutional provisions; these are matters to be decided by the Japanese people and their elected representatives).
- ❑ Continue research on the feasibility and utility of introducing theater missile defense into the defensive armory of the alliance, beyond its deployment to protect U.S. forces, which will take place.
- ❑ Set up joint, issue-specific task forces on major issues, with participation from the public and private sectors, and designate cabinet members or other senior officials from both countries to assume responsibility for each of these task forces.

Fourth Plenary Conference

The fourth and final plenary conference held in Kyoto, Japan, concentrated on problems in education and the future prospects for capitalism. Members of the U.S.–Japan 21st Century Committee considered detailed papers on deficiencies in the public education systems in both countries, particularly the paper prepared by William E. Brock, the U.S. chairman. Members also discussed a paper calling for Japan to take vigorous steps toward improving its economic and financial situation.

Report on Education in the United States

Issues Facing U.S. Education in the Twenty-first Century

The Economic and Political Context in the United States. Educators in the United States in some ways are, in the redoubtable philosopher Pogo’s words, “surrounded by insurmountable opportunities.” The recent attention focused on the schools by society’s political and business leaders provides the unique opportunity for school people to broaden their base of both political and economic support. Governors, state legislators, corporate executives, and the citizenry at large have begun to recognize their collective stake in improving the quality of education if the United States is to compete in an increasingly technological and competitive international economy. They have called for increased collaboration among sectors.

For example, like many other issues that periodically surface in U.S. education, the need for close working relationships between the schools and business community is hardly new. Such collaboration has been expected and, indeed, has been implemented for years in more than a few communities. What is new, however, are the technological, economic, and demographic changes that are transforming the world to which the United States and every other country that aspires to compete in an unprecedented era in which change is the only constant must respond. In other words, the need to build and sustain education–business partnerships will become even more important as the U.S. economy continues to be transformed from its manufacturing base to the information age. As technology changes so rapidly and information burgeons, the schools must interact systematically and constantly with the private sector if young people and adults are to possess the skills they need to adapt to an environment in such constant flux.

The private sector has research and development capacities that simply are not present in either local or state educational organizations or in the public sector generally. Indeed, by the time equipment is requisitioned and/or delivered in the public

sector, it frequently has become obsolete already. Thus, new arrangements must be worked out so that students have access to newer, state-of-the-art equipment and technology that simply is not available in most schools. Thus, a case can be made that the economic viability of American society may be predicated on sustaining the current interest in business–education partnerships and not permitting the collaboration concept to become the “quick fix” and abortive team-teaching or programmed instruction panacea of the 1980s and 1990s.

The economic problems facing American society call for unprecedented modes of collaboration in every phase of life. No longer is the economic growth of the United States unbridled and its products unchallenged in world markets, as the automotive and steel industries discovered to their chagrin several decades ago. Americans no longer are rich enough to afford to have everyone do his own thing without being particularly concerned about productivity or quality standards. For example, recent contracts in the automotive industry have stressed job security and not automatic salary increases unrelated to productivity. Educators at all levels in traditional institutions also must acknowledge that they no longer can remain isolated from other providers of education or training services—whether they are based in the military, private sector, community organizations, or elsewhere. In other words, education takes place in a host of diverse settings; not just in places called schools.

As mentioned earlier, the importance of schools in recent years has been discussed in the newer and broader context of their central role in the collaborative efforts that will be necessary if the competitive edge and economic productivity of the United States are to be sustained. Schools are pivotal to these national concerns, as is the growing awareness that education remains the key to maximizing the country’s human capital and economic development. Support for education in the business community, for example, increasingly is being viewed not as mere philanthropy but as sheer self-interest. The economy and its needs, in other words, are the contemporary *Sputnik* and serve as a lever for the support and reform of the educational enterprise. In essence, the key to education’s new salience is society’s need to develop its human capital at all age levels with emphasis not just on the traditional school-age youngsters and institutions, but also on the large number of adults that need retraining in a period in which the economy has undergone such wrenching economic transformations. Education, then, must be defined more generically as consisting of much more than formal elementary and secondary schools or colleges serving the younger segment of the population.

There is growing appreciation throughout American society that human resources are the dominant factor accounting for growth in national income, and that they account for the major share of the total economic output of the United States. Recognition is mounting that the current economic change is as fundamental as that from an agrarian to an industrial economy after the Civil War, and that education must be linked inextricably to economic development and be viewed as an essential investment in the future.

Incessant changes in technology challenge all societies and provide education with a host of challenges and opportunities. The unprecedented technological revolution that confronts the United States will reshape virtually every facet of

American lives in varied and unpredictable ways. The world of computers, discs, satellites, and so forth is on us, and young people from all socioeconomic backgrounds will be motivated in new ways to partake in the technological era that has dawned.

Such fields as science and math, of course, are essential for technological progress, and American society's need for well-educated citizens in these areas is receiving increasing recognition. The crisis in math and science education already is generating significant changes in educational policy that would not have been politically viable just a short time ago. Such notions as merit pay, differential salaries and roles for teachers, large federal programs, and the recruitment of part-time teachers from the private sector or the ranks of the retired, however, still have not received adequate attention in either state legislatures or the U.S. Congress. Indeed, there is a growing national consensus that the economic development of the United States is linked inextricably with the quality of U.S. schools, and that the scientific literacy of Americans cannot be permitted to lag any longer if the United States is to compete in an increasingly interdependent world economy.

The reality is that the tempo of economic and technological change is such that partnerships between the public and private sectors are essential. There simply is no other way in which schools or other public entities can maintain state-of-the-art equipment or keep up with the new technologies. Creative tax and related policies must be developed that facilitate inter-sector collaboration if the United States is to meet international economic challenges.

These changes, which are shifting the foundations of our economy, obviously have deep ramifications for educators. Dramatic and continuing reductions in the manufacturing or industrial areas will require the development of a workforce better able to perform in the realms of information and service provision. The United States will thrive if Americans sell their wits—if not their goods—to the world, and its major future resource is brain power. This rapid and wrenching transformation of the economy has promising and dramatic implications for educators.

Schools must respond to these new realities. If they do not, the private sector surely will react. The challenge educationally is not only to improve basic skills but also to react to the changes in an occupational context that will compel more workers to shift from “take/place/lift/put” jobs to such jobs as computer programming, which requires listening and reasoning skills as well as adequate backgrounds in fields like math and science. These challenges cannot be met by single-sector approaches. As a society, Americans no longer can afford the luxury of fragmentation, or “turfmanship.” These challenges will require unprecedented institutional collaboration between and among education, business, labor, and government. Education and training must be viewed more generically and as a multi-sector and societal responsibility in which all Americans have a stake and role. Many corporations, for example, allocate from 10 to 20 percent of the time of their engineers and other highly skilled personnel for in-service training so that they can keep abreast of the phenomenal rate of technological change that gives the schooling of a newly graduated engineer only a five-year period of relevancy. Organized labor also is acutely aware of the continuing need of reeducating and retraining its members; indeed, recent contracts explicitly provide specific moneys

per hour per employee for training or educational activities. Conversely, schools invest only a pittance in staff development.

As a society, Americans no longer can afford two or three parallel and costly education systems that rarely—if ever—interact and collaborate. The United States no longer is rich or wealthy enough to afford such costly duplication and fragmentation. Business, for example, is compelled to spend millions of dollars on remedial education, a responsibility that quite logically could have been assumed to have been within the purview of the schools. AT&T, which spends billions of dollars annually for education-related services, expends considerable money teaching thousands of employees basic writing and arithmetic skills. Similarly, Metropolitan Life devotes over 40 percent of its training program to remedial work in the basics.

Educational leaders also must recognize the incredibly diverse and extensive array of such nonmainstream educational service providers as industry, labor unions, some 9,000 proprietary schools and colleges, hundreds of businesses with a site called “college” or “university,” the far-flung and extensive military educational system, hospitals that provide their own educational system, major service agencies with educational programs such as the Girl Scouts and the United Way, diverse daycare centers, and so on almost *ad infinitum*. It should be noted parenthetically that television, of course, and other media likewise are becoming increasingly consequential.

Industry, for example, invests billions of dollars in education and training, a total that rivals the investment made in traditional public higher education. Numerous corporations, such as IBM, Xerox, and General Motors, allocate substantial resources to improve the quality of education and training received by their employees. Many corporations actually offer degrees under the aegis of their corporate educational activities. Such non-traditional post-secondary educational enterprises already are educating well over half of the adults in the United States. This hardly is an inconsequential “shadow system”; educators must be more cognizant of the collaborative opportunities as well as the potential competitiveness of this somewhat parallel and non-traditional system.

Some Salient Issues. The following enumerates and briefly highlights some of the major educational policy issues that will confront the United States in the twenty-first century:

1. **Demographic changes.** Demographic as well as economic changes are of particular importance to educators as well as to society as a whole. In a world in which approximately 75 percent of the total population is of color, Americans are going to have to redefine what the words “majority” and “minority” mean. Indeed, approximately one-third of the public school population in the United States already is of minority origin, and the proportion of African-Americans, Hispanics, Asian-Americans and Native Americans continues to grow. American students are increasing in ethnic diversity, starting with the youngest: 37 percent of preschool children are non-white; 35 percent of children between 5 and 9 years of age are non-white; and 33 percent of youngsters age 10 to 19 are non-white. Among Americans over 65, on the other hand, only 30

percent are non-white. White students will decline in number by 1.5 million between 1995 and 2005, while minority students will increase by 4.9 million in the same decade. By about 2025, whites no longer will represent the majority of the country's youth. By the middle of the twenty-first century, half of all Americans will be "minority."

For example, California, the largest U.S. state, by 2000 will be "majority-minority"; 23 of 25 of the largest school systems in the United States already are "majority-minority"; and, unless Americans improve the quality of the education and life, chances of these massive cohorts of minority youngsters—the social fabric of our society—very well may be imperiled.

Another demographic imperative must be stressed: the growth of the Sunbelt vis-à-vis the Frostbelt and Rainbelt in the United States is a reality, with the concomitant shift in geopolitical power to the South and West, which now exceed the North and East in population for the first time. Indeed, approximately half the country's population growth in recent decades has occurred in only three Sunbelt states: California, Texas and Florida.

The demographic phenomenon of "gray power" also will be of increasing significance as the population ages and the number of citizens 65 years of age and older rapidly expands. By 1990, the number of youngsters under 20 fell below 30 percent of the country's population for the first time in history. In fact, by 1983 there were more people 65 or older than there were teenagers. The implications of these changes are brought forth starkly by an analysis of the ratio of working to retired people: In 1940, 10 citizens worked for every retired person; in 1985, that ratio was projected as 5.3:1, and a 4.7:1 ratio projected for the year 2000; and, by 2030, a 2.7:1 ratio of workers to retired persons is predicted. Even a negative ratio is considered possible at some time in the twenty-first century.

Thus, growing numbers of retired individuals will be dependent on a younger population, increasingly minority in composition, to sustain the economy in general and to maintain the stability of the Social Security system.

These rather startling numbers reflect compellingly the reason that education will have to broaden its base of political support with only between 20 and 25 percent of the population having youngsters enrolled in the schools. Educational leaders no longer will be able to assume the public support they could generate, for example, when 60 or 70 percent of the population had children in the schools in the rapid growth era after World War II. Schools will have to reach out to cultivate new and broader constituencies if they are to acquire the necessary support as older citizens and other groups make increased demands for services in a period of intensified competition for resources. Public schools will have to be viewed as a civic responsibility by the majority of the population that will not have children involved or a direct stake in the educational process. Educators no longer will be able to assume they have a broadly gauged support base and certainly will not be able to afford the luxury of pulling the wagons around in a circle and shooting inwardly as often has been the case in the intramural or internecine warfare that has occurred with some frequency

over collective bargaining, church–state relations, funding allocations, de-segregation, vocational education, inter-level responsibilities, and other issues.

2. **The quality of the teaching force.** A dominant and recurrent issue relates to concerns about the quality of the teaching force. There is widespread consensus that any efforts to strengthen education must be predicated on improving the economic status and intellectual caliber of the classroom teachers, who are the core of the educational enterprise. In recent years, with the constraints on government spending, there has been a drain of talent from the public sector and service fields in general. Without question, teaching is not attracting the “best and brightest” young people, and more vigorous attempts must be made to replenish and strengthen the ranks of those responsible for developing the future intellectual capital that will be so vital to the security and well-being of the United States.

The problem is most acute, of course, in such areas as math and science, in which the economic and status rewards of teaching cannot begin to compare with the salaries and recognition available to talented individuals in business and industry. The country finally has recognized that it has a crisis of national proportions with only approximately half its math and science teachers appropriately certified. Throughout the country, numerous proposals have surfaced to differentiate roles and salaries, develop merit pay schedules, and recruit part-time instructors from the private sector as efforts intensify to attract and retain talented teachers. A number of local school districts and states already have implemented such plans, and states like North Carolina, Florida, and California, among others, have enacted comprehensive reform legislation that has included provisions for merit compensation or differential categories of teachers who would receive extra pay. The development of and growing support for the new National Board for Professional Teaching Standards reflects the growing national concern about developing a high-quality teaching force.

The issue of quality has been exacerbated by the fact that women—who still constitute more than two-thirds of classroom teachers in the United States—now have expanded career options. Talented and intellectually able women who, in the past, entered teaching because it was the traditional and logical thing for them to do now are entering other professional fields. Within recent decades a “perverse form of indentured servitude” clearly has weakened as the country’s most talented women quite appropriately select a much broader range of career options. For example, in 1965, only 6.5 percent of medical school graduates were female; in 1980 the percentage soared to 23.4 percent. Comparable figures for law school graduates were 3.2 percent in 1965 and 30.2 percent in 1980, respectively. In 1950, only an infinitesimal 0.3 percent of engineering graduates were women; but, by 1980, 8.8 percent were female. These trends have persisted. It is reasonable to assume that many of these female doctors, lawyers, and engineers in prior years would have been school teachers. Their loss to education, of course, and the continuing expansion of career opportunities for able women and minorities further compound the problem of attracting into teaching adequate numbers of the most intellectually able young people in the United States.

- 3. Concerns about children's poverty and urban and minority youth.** Any enumeration of major policy issues cannot ignore the persisting and acute problems of children's poverty and urban and minority youth. The saliency of demographic changes and the concomitant growth in minority population already have been discussed. Explicit attention, however, must be focused on the shocking reality that almost half the population of African-American teenagers have no jobs, and that minority youth unemployment remains higher than 20 percent, persisting at more than three times the unemployment rate for the country at large. These numbers project starkly the danger of U.S. urban schools' becoming, in one college president's words, "warehouses for the angry or staging areas for anarchy."

In addition to the traditional, morally compelling arguments for equity or the equalization of educational opportunity, there now are selfish, vested-interest reasons for wanting to improve big-city schools whose student population is more than 90 percent minority. As the demographic data reflect, our population is aging, and shrinking cohorts of young people must be productive to generate the revenues necessary to support services in a changing economy. More of these youngsters obviously will be of minority origin, and they represent valuable human resources that the United States and its economy cannot afford to fritter away. These numbers indicate that the United States needs to develop the capabilities of all its youth to their fullest potential. It must improve its 35 to 45 percent high school dropout rate substantially and, as one cynical realist says (hopefully with tongue planted firmly in cheek), "Let's forget justice and think profits and economic survival."

Indeed, there is a growing number of commentators who believe that the deteriorating condition of children is the most critical issue jeopardizing the future well-being of the United States. Approximately 24 percent of children under 6 in the country are growing up in abject poverty. When one adds the youngsters being reared in economically marginal circumstances, almost 40 percent of American children face serious learning readiness issues relating to their health and social well-being before they even start school.

- 4. Reinvolvement of business, civic, and political leaders.** An encouraging by-product of the recent attention toward education has been the concern for schools being expressed by many of the country's most prestigious business, civic, and political leaders. This involvement of numerous governors and private-sector leaders, as well as the unique pulpit that the president of the United States provides, is of singular importance to the schools. Until relatively recently, American socioeconomic elites were disengaged from school matters. The heated controversies in the 1960s and early 1970s swirling around issues like school desegregation, collective bargaining and teacher strikes, student and community power, finance issues, and church-state relations engulfed the schools as well as other basic societal institutions. The volatility of these problems was, without question, a deterrent to the involvement of many socioeconomic influential citizens who were wary of either becoming personally engaged or having their businesses involved in such controversial and often "no-win" issues. These factors also have caused many influential citizens to

decline service on local school boards, thus further weakening the lay support base for education.

Indeed, if the recent interest in education manifested by influential political and business leaders is to be sustained, there may be the need to resuscitate citizen involvement by creating mechanisms analogous to the National Citizens Commission for the Public Schools and the National Committee for Support of the Public Schools. These organizations, which were created to generate support for education in the post–World War II period, became valuable institutional mechanisms through which some of the country’s most prestigious citizens publicly could manifest their support for and commitment to public education.

The mobilization of a contemporary cohort of leading citizens of comparable stature could redound only to the benefit of the schools. The demographic and other changes to which this chapter referred earlier project rather starkly the collective stake the entire society has in the quality of its schools and the potential danger that they could become “dumping grounds” for growing numbers of economically disadvantaged minority youngsters. Efforts to institutionalize the recent involvement of business and civic elites in school issues not only could mitigate the perils of racial, economic and educational polarization, but also could provide a crucial base of support for education in the challenging days ahead in which U.S. schools may face the very real danger of losing the crucial support of the middle class, which increasingly could opt for educational alternatives (that is, charter schools, home schooling, or vouchers) for their children.

5. **The decline of foreign language instruction.** Another policy issue warranting some discussion is the appalling decline in language training in a shrinking world with an interdependent global economy. A persuasive case can be made that the competitive economic position of the United States is weakened because of the deterioration in both the quality and quantity of foreign language instruction. For example, many Japanese and Europeans know and speak English; the numbers of Americans able to converse in other tongues, however, is abysmally limited. U.S. businesses thus have a distinct disadvantage in such areas as marketing and sales vis-à-vis their foreign competitors despite the widespread use of English in international trade and finance. Statistics tell the story more graphically than words: only 15 percent of American high school students study foreign languages beyond the second year, and just 8 percent of institutions of higher education in the United States require students to have studied a foreign language; in 1966, 34 percent of the institutions required such instruction for admission. These shocking numbers should encourage Americans to welcome many new citizens who have the advantage of speaking languages other than English. These new residents—who can speak Spanish, Japanese, German, Mandarin, Cantonese, and other languages—can prove a valuable economic resource as the United States seeks to improve its international economic position.
6. **Inter-level relationships.** Another important policy issue that will increase in saliency as the twenty-first century dawns is the need to coordinate more

closely elementary-secondary and higher education. The 12th grade, of course, is the magical and mystical dividing line between the two in the United States, and efforts must be expanded to bridge the levels more effectively in areas in which the two overlap. Americans no longer can afford duplicative programs where they may exist. For example, many community colleges offer remedial and vocational programs that are quite similar to the offerings of school systems under the aegis of adult basic education. Mechanisms should be created at the local or regional level that will coordinate programs more effectively. Also, Americans should move away from categorical set-asides and blatant political tradeoffs that temporarily “buy” peace between the levels. If educators do not take the initiative in rationalizing their systems, politicians certainly will at a time of intense competition for resources.

There are major pragmatic reasons for increased communication between elementary-secondary and higher education. As the competition for dollars becomes keener, there is the real danger of dysfunctional inter-level conflict, for both government and private funds. In some states, for example, recent comprehensive reform legislation has included tax increases to be used for the schools while higher education and other services have been cut. Even in the area of private giving, in which higher education has had the terrain to itself (95 percent of private-sector education contributions traditionally have gone to higher education), developments have occurred that could generate negative competition between the levels. Public schools only relatively recently have turned to the private sector for support, and local and regional foundations are being created throughout the United States to serve as conduits for contributions. Public education funds have served as a catalyst in the recent development of many local and regional foundations that serve as mechanisms to funnel private resources into the public schools.

Although there has been little or no overt inter-level conflict thus far, the dangers of this occurring are all too real. Politicians are the first to say that internecine conflict within a policy realm like education could hurt everyone, particularly at a time in which resources will be harder to find and competition from other sectors will be keener. Educational leaders from all segments of the enterprise have a responsibility to try to ensure that such dysfunctional inter-level conflict does not transpire.

- 7. The relationship between quality and equity.** There is growing concern for quality in every facet of American life, from cars to schools. The recent reports on education have decried, for example, the “rising tide of mediocrity” or the “lack of standards” in U.S. schools. Although acknowledging the undeniable need to bolster the academic quality of many programs, most American educators agree the country cannot afford to retreat from its national concern with the issue of equity or access, which has received such emphasis in the past few decades. Quality does not preclude equity, or vice versa. These two transcendent goals are complementary and support one another. The consequences to American society of emphasizing one at the expense of the other are grave because of the economic and demographic imperatives discussed earlier, which highlight the dramatic increases in young members of minority groups and the

concomitant need for the equalization of educational opportunity that must be at the core of the American democratic system. At the same time, however, the quality of many institutions of learning has become shoddy, and a parallel commitment to quality is essential if Americans are to compete economically and educationally in the next century.

- 8. The role of the federal government.** The appropriate role of the federal government in the shaping of education policy remains a persistent and controversial issue. Indeed, it is currently a major bone of contention between President Bill Clinton and the Republican-dominated Congress. International political and economic issues and concerns would appear to require national responses if not the relatively large federal programs of the past. It seems unlikely that 50 state school systems, some 15,000 local school systems, and more than 3,000 post-secondary educational institutions have either the human or economic resources for the expensive research and development investments that have to be made in the new technologies, science, math, foreign language, and computer education. The necessary technological crash programs and heavy up-front investments necessary in such new areas as computer education must be promulgated at the federal level as the United States competes in an international economy against other countries—almost all of which have national planning.

Although there is little doubt of excesses in some of the educational initiatives undertaken by the federal government in recent years, Americans cannot afford to “throw out the baby with the bath water.” In other words, a consensus is emerging that Americans need to find some middle ground between federal domination and a programmatic void in technical areas that the country can afford neither educationally nor economically. Indeed, concerns with such areas as math, science, and computer technology should serve as lightning rods as all segments of the society acknowledge a common stake in setting national priorities and a more balanced federalism as the twentieth century ends.

- 9. Bridging the culture of the public and private sectors.** The cultures and worlds of the public and private sectors are quite different. If business–education relations are to be viable, much of the stereotyping must disappear. Not all educators are anti-profit, detached “eggheads” with little appreciation of the virtues of the capitalist system; conversely, not all businessmen are money-grubbers devoid of social sensitivity or ethics.

More mechanisms must be found so that educators and business people systematically get to know one another and disabuse themselves of inaccurate stereotypes. Businessmen, for example, must learn more about the political constraints that often inhibit enlightened policymaking in the public sector, while educators must become more knowledgeable about the diversity, hierarchical facets, and importance of peer relationships (such as the influence of chief executive officers) in the corporate world.

Both sides must recognize their joint interest in narrowing the differences that often exist between the developmental focus of educators and the instrumental focus of businessmen. They have a collective stake in working together

to produce well-trained students with higher-order skills that will equip them to perform in an increasingly technological world.

- 10. The need for balance in educational programs.** Concern constantly is expressed that the growing interest in business–education relations and programs spawned by the recently enacted school-to-work legislation might skew the curriculum by emphasizing specific skills or technical training at the expense of the humanities or liberal arts. Apprehensions have been articulated about the possibilities of a powerful neo-vocationalism emerging that would submerge the need for all students to have a solid general academic grounding as well as basic competencies in reading, writing, and computing. In a changing economy in which people can be expected to change jobs a number of times, it is more important to educate well-rounded, adaptable people who can adjust readily to change and have the overall skills to be employable in second, third, and fourth jobs rather than just have the skills requisite for a specific entry-level job that are likely to become obsolete in time.

Recommendations for Improving U.S. Education in the Social, Political, and Economic Context of the Twenty-First Century

- 1. Building Collaborative Relationships with the Private Sector.** As policy-makers contemplate the future of education in the United States, there is agreement that, even though much rhetoric on the subject of collaboration would emanate from the national level, meaningful action would occur at the state, regional, and local levels. There is agreement that there will be unique opportunities to bring diverse sectors into collaborative relationships. The states will become pivotal in an era of political devolution, as governors and state departments of economic development—as well as state education agencies—strive more forcefully to link the worlds of business and education with the overriding purpose of furthering economic development. At a crucial time of economic change, new patterns of training and retraining have to be developed, and new modes of multi-sector collaboration have to be created.

There is recognition in the United States that the process of forging meaningful partnerships has just begun. There will be no easy or quick fixes, and sustained, enduring collaborations might take decades to achieve. Meaningful partnerships have to be built substantively with all parties totally committed and not just involved for cosmetic or public relations purposes. Indeed, it is candidly acknowledged that the greatest payoff of more extensive private-sector involvement in the schools might be in the political or policy realm. Business leaders potentially could play vital roles with their unique political clout on such major issues as tax policy and governance as they impact schools.

Some apprehensions are being expressed about the fragile nature of project-based partnerships that are not central to the core teaching and learning functions of the schools. Although these special activities are positive in many ways, they provide little assurance of more long-range involvement and support on the part of the business community. Like federal grants that come and

go, peripheral projects do not ensure adequate and stable levels of either fiscal or political support for schools.

Despite these concerns, there is a generally positive sense that the heightened interest of the business community has given the education enterprise positive “front-burner” public visibility in ways that have not been experienced since the *Sputnik* era four decades ago. If one accepts the old adage that invisible politics is poor politics, then educators should capitalize on the existing window of opportunity and the saliency of education within the Clinton administration by integrating educational objectives and aspirations into the mainstream of major public policy issues and concerns as expeditiously as possible. Indeed, some skeptics are fearful that the education balloon may be deflated as quickly as it was inflated, although a growing number of the country’s most prestigious business and governmental leaders have espoused the importance of the schools to the country’s economic development, and comprehensive reform legislation has been enacted in a growing number of states.

Such major national business organizations as the Committee for Economic Development, the Chamber of Commerce, the National Alliance of Business, the Business Roundtable, and their counterparts at the state and local levels are undertaking education-related activities or discussing the significance of school issues with unusual interest and even zeal in a number of cases. Education is being viewed more commonly now not as a consumer of resources but as a necessary investment in human capital, and as the key to the country’s economic viability.

How do people in education react to the recent attention their field has received from the elite centers of economic and political power in American society? Do educators react defensively and wait it out? or do they seize the moment when economic development appears to be the supporting lever for education that *Sputnik* and defense were years ago and capitalize upon what may be a rather rare opportunity to strengthen their enterprise by broadening its constituency while candidly acknowledging its weaknesses? Educators may have no choice but to subscribe to the latter strategy. An education reform train of momentous size and consequential impetus has left the station, and educators either board and become a vital part of its more diversified crew or risk being left behind in irrelevance as a series of interrelated issues impinge most significantly on not only our schools but every other major institution in American society as well.

Despite its problems, the United States will have great advantages once it gets its act together and generates the necessary partnerships and inter-sector linkages. The United States has a strong base and tradition as a creative entrepreneurial society, and its schools, despite their weaknesses, have produced a uniquely well-educated and adaptable population.

2. **Building broader coalitions.** As part of the efforts to broaden their support base, education leaders will have to reconfigure and essentially redefine education as constituting more than just traditional schools or formal institutions of learning. The expanded coalition they will be compelled to build should include preschool children, senior citizens, the numerous older workers who

will have to be retrained, and others in society who will require educational opportunities in a changing economy. Multi-agency and collaborative human service thrusts within the public sector and growing partnerships between the public and private sectors will become more essential as resources decline. Educators have unique social and institutional penetration into the grassroots of virtually every community. This outreach will be a great asset in their efforts to reach out politically not only to buttress and expand their own support base but also to help to fill the escalating needs of such groups as senior citizens, minorities, older workers who need retraining, and the growing requirements of single parents and “latchkey” children.

The *major issue*, in essence, is how to reconfigure a fragmented and uncoordinated education system to meet emerging economic and workforce needs without stifling the strength of its diversity. A key component in this reconfiguration is the acceptance of a more generic and broader definition of education as representing more than just schools. Education leaders should be in the forefront of these efforts to redefine the enterprise. If they do not engage themselves in such self-appraisals, the inevitable changes will occur without their involvement or leadership.

The Club of Rome, a prestigious international group that has the temerity to predict the future, describes three categories of people in regard to their potential influence on the future: (1) those who make it happen; (2) those who let it happen; and (3) those who wonder what happened. An overriding imperative in the United States is the need to ensure that education leaders will not find themselves in the third category.

Common Challenges and Areas of Possible Cooperation Between the United States and Japan

In reading about education in Japan, it is striking how common or generic some of the major issues are to both of our countries. The two somewhat surprisingly (at least to this author) share many common concerns despite their vast cultural, political, ideological, economic, and historical differences. These commonalities warrant some elaboration. The following is a brief discussion of some issues in Japanese education, along with some of the commonalities typically found in reading background papers and books on the subject.

Education policy in both Japan and the United States is formulated in the context of the complex and interrelated social, economic, and political forces that influence events in the larger societal context. In Japan, economic constraints, for example, may compel reduced support for education, which, in turn, may curb the expectations of an increasingly “educationally affluent society.” Certainly, as already indicated previously in this chapter, economic developments and change have had a similarly profound impact on the shaping of educational policy in the United States. The issue of “educational overconsumption” was as real only a few years ago in the United States as it is in Japan: both countries have wrestled with unprecedented budget deficits and trade issues and constantly try to reconcile educational needs with budget realities and constraints.

The problem in both societies is that parents see education as the major means through which their children can achieve social and economic mobility. Although influential parents in both countries recognize abstractly the growing competition for scarce sources, they want and pressure their political systems to provide the best possible educational opportunities for their own children. In other words, in both the United States and Japan the road to future success is determined directly by the crucial role played by high-quality academic programs that are the essential precursors to college and to ultimate success and status in both societies.

Other similarities appear to exist. The tension and need for balance between academic and vocational education, for example, confront education policy makers in both countries, who must wrestle with the incessant issue of balancing utilitarian, manpower needs with the virtues of general, liberal arts instruction. Related questions pertaining to balancing the desire and need for maximum access with the importance of maintaining high academic standards likewise face both of educational systems.

Both of the United States and Japan likewise wrestle with the ever-sensitive issue of achieving an appropriate balance between centralized and decentralized educational decision-making processes. Although the Japanese system historically has been much more centralized at the national level in terms of such matters as curriculum and textbook determination, recently more consideration has gone toward delegating educational decision-making to local authorities.

In summary, both societies face the dilemma of reconciling the higher and more expensive educational expectations of their citizens with the reality of limited economic resources. Both the United States and Japan recognize the need to provide (and to equalize to the extent possible) the best possible educational opportunities to their young people if they are to thrive economically in an interdependent and increasingly competitive world economy; yet, both countries have limited resources to achieve these important objectives.

The following are among the issues that may warrant joint discussion and perhaps the building of a common agenda in the twenty-first century:

- the pivotal role of technology and computers;
- the need to balance creativity and flexibility with high academic standards and stronger accountability;
- discussion of the respective pros and cons of decentralization and de-regulation of education authority;
- the role of schools as socializing agencies in democracies;
- the need to make stronger efforts to provide greater equalized educational opportunities to all (finance equity);
- the need for strong accountability systems with rewards and sanctions explicitly built into them;

- growth of educational alternatives or choice (charter schools, for example) and their appeal as enhancers of local creativity unstifled by bureaucracies and regulation;
- escalating competition for scarce resources (such as that among senior citizens, welfare, and prisons);
- the declining political base of support for schools as populations age (that is, intergenerational coalitions are needed);
- the impact of demographic diversity and changes in family structures;
- influential educative forces in children's lives other than traditional schools (that is, education is more important than schooling);
- the impact of preschool years (that is, the impact of children's poverty);
- the critical role of parents (which speaks to parental involvement and parent education);
- school collaboration with other agencies;
- the advantages and disadvantages of smaller schools'
- the growing importance of global education, foreign language instruction, and multicultural instruction;
- student and faculty exchange programs;
- relationships with the business community (and the exposition of the latter's employment needs);
- the critical role of teacher organizations;
- the need to "mesh" academic and skill standards required for the new high-tech, high-skills job market;
- the dysfunctional stigmas connected with employment training in academic institutions; and
- the need to explore closer inter-level relationships.

Report on Education in Japan

The Current State and Problems of Education in Japan

It generally is said of Japanese education that, although elementary and secondary education is excellent, higher education suffers problems—even though, in fact, both elementary education and secondary education are approaching severe crises. For example, in elementary schools in Japan, the annual share of students who refuse to attend school (due to an overwhelming fear of the school environment) is currently approximately 0.2 percent; in junior high schools, the share is approximately 1.2 percent. The rate of occurrence of violence within schools is 1.5 percent

to 2 percent. From the standpoint of the United States, in which there are higher rates of dropping out and school violence, one could conclude that there appears to be no particular problem based on these figures alone, and that, in Japan, only higher education has problems. These figures, however, certainly show increases relative to past figures, and the current situation is that even elementary and secondary education, although excellent in appearance, is sliding into a crisis.

A point worthy of particular attention is that what hitherto appeared to be excellent aspects of Japanese education has come to be regarded as problems as the social situation in Japan changes. In this chapter, we first present aspects of Japan's education system that are regarded as being excellent and then demonstrate the critical condition of Japanese education by explaining how problems rose in these aspects. We then discuss recent moves to reform the education system and give examples of schools that, under these circumstances, have introduced distinctive education systems with the aim of putting new education to the test.

The Current State of Crisis in Japanese Education

Infant Education. *Aspects regarded as excellent:* In education, discipline is provided particularly in Japanese kindergartens. Through existing in groups, kindergarten children learn consideration for others and are brought up to be in harmony with the system, thereby preparing themselves for elementary education.

Aspects regarded as problems:

1. **A lack of self-expression and assertiveness.** Education with strict discipline breeds harmony within the system and gives children the awareness that they are members of a group; on the other hand, however, kindergarten children receive virtually no training aimed at developing their abilities of self-expression and assertiveness. As Japan internationalizes and the importance of individuality becomes paramount, the lack of self-expression and assertiveness that children should be trained to have from their childhood is becoming a more significant problem.
2. **A competitive examination system.** The competitive examination system in Japan extends even into kindergarten education. There is the growing tendency for kindergartens to assume the role of preparatory schools in order to gain entry for their pupils into highly regarded private elementary schools, and children are sent to cram schools to gain entry to such highly regarded kindergartens. These children are subjected to a competitive examination system even before they enter kindergarten; after they enter elementary schools, these children lack the cultivation of emotions and artistic senses that come only through having experiences in life and nature, and they follow a lifestyle in which they have little latitude, suffer stress, and lack sleep.

Elementary and Junior High School Education. *Aspects regarded as excellent:* By such means as standardized curricula and courses of study, unified equipment and facilities, high-quality teaching staff, and frequent achievement tests, Japan's bureaucratic educational system (based on the Ministry of Education's strict regulations) maintains a homogeneous scholastic standard and allows

few dropouts. In addition, school events done in groups and strict school rules have helped students to adapt to the system and to act in an orderly and sensible manner.

Examination-oriented education encourages the acquisition of knowledge and the attainment of the ability to deal accurately with things. It can be said that preparatory schools, which can be categorized into three types (those offering supplementary classes for school, those offering academic courses to prepare for entrance examinations, and those acting as alternatives to daycare centers), contribute to raising the scholastic level of all students.

One particular aspect of Japan's system of elementary and secondary education that can be considered unique and excellent is work education (called *rosaku*) that has students engage in such work as cleaning, gardening, and dairy farming. In addition, numerous schools still provide school meals for lunch, and everyone—including the teaching staff—eats the same food. This helps to develop the community spirit of the students.

Aspects regarded as problems:

1. **Excessive uniformity.** Even though Japan's education system, which is based on Ministry of Education regulations, maintains a homogeneous scholastic standard and allows relatively few dropouts, it simultaneously hampers the development of students' individuality, creativity, and diversity, thereby creating excessive uniformity. Such centralized education does not lead to an original education, for example, that takes advantage of local characteristics. This also may be connected with the failure of many students to develop a tolerance for heterogeneity and diversity.

In addition, because Japan is a small country covered entirely by the mass media, information is transmitted quickly, allowing people to take action based on the same information as other people throughout the country receive. This enhances centralized education even further, spurring its uniformity.

2. **A lack of education in thinking.** Competitive examinations limited to only some students during kindergarten become critical when almost all students begin to participate after starting compulsory education at elementary schools and junior high schools, compelling education to give importance to deviation values and academic ability only. Such education tends to provide mere transmission of knowledge and to require compulsory memorization, and although students may excel in acquiring knowledge and dealing with things with accuracy, there is—with the exception of a very limited number of schools—an overall lack in education aimed at developing students' capability to think and to resolve problems independently and at the ability of self-expression and assertiveness, instilling not an active but rather a passive personality.
3. **A lack of special education for gifted children.** In the United States, equality applies to individuals in accordance with the ability of each one; in Japan, however, equality means that all students are able to do the same thing according to their age. Even if a student is blessed with some special ability, there is no such education that will help that ability to blossom under the uniform education system.
4. **A weakening of norms, and a lack of education to build self-esteem and mutual respect.** In Japan, it originally was the case that people maintained

order by acting in line with the group, while the possibility of incurring shame also acted as a mechanism for restraining people from rebelling. School events conducted in groups, together with strict school rules, have helped to ensure that students adapt to the system and behave in a disciplined and sensible manner. In recent years, however, such factors as the disintegration of communities, the dilution of shame, and the emergence of “me-ism” have caused group norms to weaken. Moreover, education for self-esteem needed under such circumstances is not provided yet.

The same can be said of social and cultural norms. With the exception of cases in which education-obsessed mothers take an active part in their children’s education, generally speaking, there is little participation of parents in education. In the past, parents fulfilled the role of teachers for matters that children should learn, like manners and morals. But, as the disintegration of families and the lessening of paternal rights occur, parents today do not carry out such social obligations; in fact, they seem to be becoming less able to do so.

This weakening of norms is causing children to lose their community spirit and ethical sense, which can be demonstrated in the form of an increase in the incidence of violence in schools and of bullying (which has become a social issue). The education environment in Japan’s elementary and junior high schools is insulated from society, and students are protected in such a way that, even if they act in a violent manner, they are not subject to the same social sanctions that they would be if they were adults. In such circumstances, children grow to adulthood without learning rights or obligations. Today, there certainly is the need for education that emphasizes mutual respect and self-esteem, which are lacking both in schools and at home.

5. **A lack of a division of labor for teaching staff.** Unlike in U.S. schools—in which there are counseling specialists in addition to teachers—in Japan one of the jobs of teachers is to give guidance to students for their daily lives. In addition to teaching lessons, teachers carry out such activities as making home visits and playing the role of counselor, and are required to know all about their students. As a result, an excessive psychological burden is imposed on Japanese teachers.

A difficulty in recruiting high-quality teaching staff also has become problematic in recent years. Fewer competent students opt to become teachers, for such reasons as the fact that, although teachers take so much responsibility, as stated above, by dealing with guidance and violence in schools, their salaries are not attractive. Another factor that turns students away from the teaching profession is that the number of children in the population is dropping, resulting in an increasing number of teachers on standby for work who have fewer and fewer opportunities for actual teaching.

6. **The dual system of education.** Although cram schools are considered to contribute to an increase in the scholastic level of students as a whole, the tight schedules necessitated by attending both regular schools and cram schools create problems for children in such forms as lack of sleep and stress, which must not be overlooked. Both schools and parents rely on cram schools to maintain and increase students’ scholastic levels, even though the Ministry of Education

sought to enable students to have some relaxation in their lives by reducing the number of teaching hours at schools (for example, no school sessions are to be held on the second and fourth Saturdays of each month). Under these circumstances, cram schools take up too much time, making progress in fundamental reform impossible.

7. **The closed school system.** Weak ties with the local community is another problematic aspect of Japanese schools. Only a few schools open their facilities to the public on school holidays; schools also disclose almost no information about themselves. This, too, may be causing the parents and other members of the local community to refrain from participating in education.
8. **Insufficient education for internationalization.** As Japan enters an era of internationalization, the importance of language education from childhood has long been pointed out; but, to date, foreign language education has not been sufficient enough as of yet. In addition, not only is there a lack of linguistic ability; there also is a lack of training for enabling students to assert their own opinions, such as is necessary for debating. The insufficient teaching of Japanese history also evokes misgivings.

High School Education. *Aspects regarded as excellent:* Today, in peacetime, difficult university entrance examinations can be described as the only battle for young people in Japan to fight; they also give Japanese youth the opportunity to make rapid strides forward. Cram schools and college preparatory schools flourish throughout Japan by executing frequent achievement tests; this help to maintain and raise the scholastic level of all students.

Aspects regarded as problems:

1. **A lack of education in thinking, and a lack of education in cultivating emotions and artistic senses—and in producing a genuine elite.** Accompanying the increase in the proportion of students attending universities, the competitiveness for entrance examinations has become more fierce in high school. Because schools prepare students for university examinations—thus providing an education that stresses the amount (or lack of) deviation from median scores—emphasis is placed on mere transmission of knowledge and memorization, *not* on giving students opportunities to develop their ability to think for themselves to identify problems and resolve them or to foster an ability for self-expression and self-assertiveness. In addition, the individuality and creativity of each student and his independence and self-reliance are regarded as unnecessary, resulting in excessive uniformity in education. Some regular schools (called “entrance exam preparatory schools”) literally become just that—lacking education to cultivate the emotions and artistic senses. Under such circumstances, education is producing only an elite in terms of school careers; there is absolutely no nurturing of a real human elite with excellent personalities.
2. **The decline in education levels at vocational (commercial, industrial, and agricultural) schools.** In Japan, there are vocational schools for students who finish junior high school. In the past, these schools made a major contribution to producing professionals in the fields of commerce, industry, and agriculture. Today, however, the most widespread custom has become for students to

participate in competitive examinations and to proceed from ordinary high schools to universities; as a result, vocational schools have been transformed into repositories for students who have insufficient scholastic ability to be accepted into ordinary high schools. The educational level of these students has declined, and vocational education has lost its original value.

3. **The decreasing number of children.** The decreasing number of children is a very serious problem in Japan because it means a decline in the number of people who will assume the task of supporting the community in the future. In Japan, because parents bear most of the burden of their children's educational costs, there is the concern that, if the burden borne by the beneficiaries increases (as is called for in current education reform proposals), it may serve to accelerate further the decrease in the number of children. Under these circumstances, the smaller number of children could make it easier to obtain entry into universities; ironically, it can be argued that it will become necessary to set examinations that emphasize scholastic ability so as to maintain academic levels.

University Education. *Aspects regarded as excellent:* By offering everyone a uniform qualification in the form of graduation from a university, Japan's education system provides egalitarian group education. At the same time, the efficiency of learning is maintained by screening candidates through entrance examinations and providing education according to academic ability. With particular regard to science courses, Japan provides specialized education beginning with the first year of university study. The result is that technical ability is nurtured from an early stage, and that the overall quality of the people who subsequently enter society is high. In general, Japanese universities produce homogeneous workers who are free of vices and prefer to live in harmony with the system. Considering that living costs in Japan are high compared with those in the United States, another excellent aspect is that students receive an education at relatively low and reasonable tuition fees.

Aspects regarded as problems:

1. **Problems associated with the contents of research and education due to Ministry of Education regulations.** Under Ministry of Education regulations, the number of units required for graduation from a Japanese university is 124 (that is, at least 62 subjects). This very large number means that students receive only a broad, shallow education. Because such a large number of subjects must be studied, almost no assignments can be given, resulting in insufficient learning of basic subjects and an inability to apply it.

Furthermore, as in the case of elementary, secondary, and higher education, Japanese universities fail to provide an education sufficient to develop students' individuality, international outlook, and creativity. The type of education provided under the strict regulations of the Ministry of Education makes it possible to turn out a stream of graduates with technical abilities. It now is regarded as a problem that the limited importance attached to general academic subjects may cause a lack of development of balanced attainment students.

2. **Inadequate abilities of teaching staff.** Teaching staff at Japanese universities generally have very little real-life experience; as a result, their teaching leans

toward the theoretical rather than the realistic. This is particularly true in literature courses, in which the focus is on acquiring knowledge to address theoretical problems, and there is inadequate education aimed at nurturing the ability to identify problems independently and resolve them. The current situation is one in which teaching staff stick to teaching the commonplace and do not provide a “living education.”

Recently, such factors as low salaries have been making it more difficult to secure truly high-quality personnel, and there has been a particularly marked decline in the quality of teaching staff in science courses. This has an additional impact on the cooperation among industries, government agencies, and universities. Responsible teaching staff lack practical abilities and are unable to conduct interesting research, with the result that some research projects do not attract the interest of companies and, in effect, are not functioning.

3. **An inflexible system.** In Japanese universities, specialized education is provided during undergraduate study, making possible a nurturing of advanced technical ability, particularly with regard to science; on the downside, however, this nurturing makes it difficult for students to change departments or universities. The education system also is inflexible in other ways. For example, even though the introduction of a semester-based system makes it possible to accept students in October, engineering, science, and medical departments begin laboratory work in the spring term that is difficult to duplicate; thus, students entering these departments in autumn have to wait until the following spring to begin their practical work, meaning, in effect, that the introduction of the semester-based system is pointless.

In addition, the mobility of the teaching staff to return to universities and once again take up teaching posts after having spent several years in government or private research institutions, or to have them exchange universities, has been inadequate; universities are not prepared to cope with it fully. This shortcoming further accentuates the teaching staff’s lack of real-life experience.

Inflexible budgetary systems, tax systems, and other regulations also are causing problems, impeding the development of research universities and becoming an obstacle to raising the level of research at Japanese universities.

4. **An inadequately developed education and research environment.** Composed of such elements as libraries, computer centers, databases, and campuses functioning around the clock, the education and research environment in Japanese universities has not been sufficiently developed for students to nurture their individuality, creativity, and international minuends. The contributions of universities to such education as recurrent education (which enables corporate personnel to refresh outdated knowledge and skills) and lifelong education also have been insufficient.
5. **An inadequate structure for cooperation among industries, government, and universities.** The structure for cooperation among industries, government, and universities still is underdeveloped and is reflected in the almost complete absence of a system of internships at companies. There also is little economic assistance provided by companies.

- 6. An insufficient financial support system.** The sources of funds for Japanese universities are limited almost exclusively to students (and their parents) and the government. There are almost no donations from individuals or companies, and other financial support systems, such as scholarship schemes, are insufficient. In Japan, companies do not support areas of learning that they regard as being of no practical use to them; as a result, art undergraduates in particular find it virtually impossible to obtain any financial support. Although funds are provided, undergraduates in science courses are not necessarily making an effective use of the funds due to rigid systems for administering the assistance. At national universities, for example, even if equipment can be purchased, the hiring of assistants may not be accepted; and although computers may be purchased, support for their maintenance may not be approved.
- 7. A lack of appropriate evaluation systems for schools and teaching staff.** Evaluations of Japanese universities are limited to those based on deviations from median scores used for entrance examinations; as a result, few evaluations are made concerning the quality of education received in schools. It is likely that companies and society as a whole do not regard universities as educational institutions, but simply as screening institutions.
- Because there also is no remuneration system based on an appropriate evaluation of teaching staff, there is little to instill enthusiasm among the staff, which leads to a decline in staff quality.
- 8. A lack of motivation among students and a critical attitude toward education.** Rigid corporate recruiting policies that regard universities only as screening institutions leads to a lack of motivation among students for learning, which, in turn, reinforces the notion that universities are places in which students relax and have a leisurely time.
- In general, it also is the case that the more elite students tend to have less overseas experience because, for example, they fear that a one-year period of study abroad may create a void in their academic records to compel them to get off the track of elite course work. This is a concern, especially considering the progressive internationalization of society.
- 9. An improper evaluation of the premature cessation of studies.** In a situation in which universities are regarded as screening institutions, the fact that a student has entered a certain university means only that he has passed the screening process and possesses certain academic abilities. Because little importance is attached to the actual study done at universities, even if students terminate their course work before its completion and leave school, it is not regarded a necessarily negative factor.

Graduate School Education. *Aspects regarded as excellent:* As a result of the continuation of specialized education from undergraduate years, advanced technical ability is nurtured in Japan, resulting in the universities' turning out capable people of high-than-average caliber.

In addition, as is the case at the undergraduate level, in light of the fact that costs of living are higher in Japan than they are in the United States, tuition costs are relatively low and reasonable.

Aspects regarded as problems:

1. **A low regard and low expectations for graduate school education.** In Japan, the view in industrial circles is that graduate school education is of no use; indeed, graduate schools still are regarded as mere continuations of undergraduate work. This attitude is connected with the fact that Japanese companies believe that *they* that should provide specialized education in-house; thus, their expectations of university and graduate school educations are low, and they fail to make any demands on schools for specialized education, which increases the angle of the downward spiral of Japanese education. Moreover, graduate schools are regarded not as institutions for developing personnel with specialized knowledge, but for developing researchers. A noteworthy result of this notion is that, when students—particularly those from liberal arts and science curricula with majors in mathematics or physics—finish graduate school and seek to enter employment, companies tend to shun them. This creates a syndrome in which personnel with doctorates are not being utilized effectively.

Another problem is that those that finish their graduate studies in a liberal arts curriculum may receive the same salary as those who finished only their undergraduate studies. Such a remuneration system does not offset the cost to students of their education, causing a decline in motivation of students for study and research.

2. **An inflexible system.** As is the case at undergraduate level as well, inflexible budgetary systems, tax systems, and regulations impede the development of research universities, and graduate schools are unable to become bases for the most advanced research.

An additional problem is the lack of progress in the fundamental internationalization of education and research. For example, the interchangeability of credits and joint research between universities in Japan and their counterparts overseas is hampered under the current system. Furthermore, Japan's preparedness for accepting exchange students from overseas is inadequate, because of such problems as their need for Japanese language proficiency, the high cost of housing, and the lack of study grants.

3. **The problem of students' attitudes.** In addition to the rigidity of corporate hiring policies with regard to students' graduating from graduate schools, there is the strong desire on the part of the students to work in major companies—and the corresponding lack of entrepreneurial spirit among graduates.

Recent Moves to Reform the Education System

Japan's education system, with its uniform content and evaluation criteria and the placement of pupils under the administration of schools, can be summed up as "uniform education." This uniform education is superior with regard to its ability to enable students to learn established facts and thereby acquire knowledge, but it is severely lacking with regard to nurturing creativity and originality—which are the bases for new ideas.

This education system, which originally was introduced during the Meiji Period (1868–1912), has undergone several transformations—including the education reforms following World War II. But it survives to this day.

A number of problems in the education system have been pointed out over the past 10 years or so, however, and education reform have been advocated. These problems—including the harm caused by the uniformity of education within the system—all are becoming more serious, and are inciting a national debate. As a consequence, radical measures to resolve these problems are needed, and demands for education reform have mounted.

Under the impact of these problems, in 1984 the Nakasone cabinet established the Provisional Council on Educational Reform, which, after several years of deliberation, issued its final report in August 1987.

The final report points out that the historical context of education reform is that, with the maturing and internationalization of Japanese society and its increasing character as an information society, there is a need for highly creative people. The report lays down the fundamental principle of reform as being that of reforming the uniformity, inflexibility, and closed nature of school education, and of providing education that places an emphasis on individuality. With regard to elementary and secondary education, the report proposes concrete measures, including the prioritization and simplification of the criteria for official approval of textbooks so as to enhance the individuality and diversity of the content of education; to ease the intensity of competitive examinations by calling on universities to be free to select individualistic entrants; and to raise the quality of teaching staff by requiring schools to provide a variety of training courses.

With regard to university education, proposals include the use of such means as the encouragement of donations from the private sector, ending the closed character of personnel management, and the introduction of teaching staff from outside the academic sphere and from overseas so as to improve the inflexible nature of the university structure. The report also proposes that the criteria for establishing universities be broadened and simplified, that each university revise its curriculum so as to ensure that individuality can be expressed, and that graduate schools be improved and made into receptacles for more advanced education. It also makes proposals regarding the desirable forms that education should take to respond to changes in response to a dynamic environment. With respect to internationalization, the report proposes that there be a shift to communication as the point of emphasis in English language education; and, with regard to information, it proposes that educational institutions become more information-oriented (for example, through the introduction of personal computers), and that such information tools as computer graphics should be used in education.

The subsequent administration of education has been directed toward translating the recommendations of this final report into reality. In the sphere of reforming university education, the University Reform Council (*Daigaku kaizen ni tsuitez* [University Reform]) was established in 1987, and has been deliberating on the issue since its inception.

The report of this council, issued in February 1991, proposes some concrete measures, including placing greater emphasis on such interactive teaching methods

as seminars, the promotion of a semester-based system and the accompanying concentration of lectures, and the promotion of the ability to complete subjects at other universities and departments.

In addition to the Provisional Council on Educational Reform and the University Reform Council, the Central Council for Education (an advisory body to the minister of education) has engaged in extensive deliberations for more than 15 sessions. During the 15th session (as the council's first report explains), the necessity for cooperation among schools, families, and communities was pointed out. This first report, issued in July 1997, set off a continuing debate on major education reform issues, and the Central Council intended to release a final report in June 1998. Issues for the final report include the introduction of integrated junior and senior high school education into public schools, the reform of university entrance examinations, and permitting greater flexibility with regard to the age for university entrance and the skipping of grades.

Another development is that the Hashimoto cabinet has established education reform as one of its highest-priority issues, reflected in the fact that, at its news conference at the beginning of 1998, the cabinet for the first time added education reform to the normal five areas of reform, which include administrative, fiscal, and economic-structural.

As regards Prime Minister Hashimoto's basic attitude toward addressing education reform, he is reported (*Yomiuri Shimbun*, evening edition, January 7, 1997) to have emphasized his desire for conducting a wide-ranging, flexible study that does not adhere to the previous closed way of thinking. Specific issues include those being studied by the Central Council for Education, including the introduction of integrated junior and senior high school education and the lowering of the age for entering college, along with such other issues as the desirable form of multi-track higher education and collaboration with external organizations in addressing the problems of bullying and delinquency.

Trials of New Types of Education: Examples of Schools That Have Introduced Distinctive Education Systems

In line with this concrete menu, the Ministry of Education is proceeding with experimentation (model schools, for example) directed toward achieving reform. On the part of schools, meanwhile, it is possible to identify a number of advanced schools that are making efforts to differentiate themselves from others, and that are developing their own unique flavor in terms of education content and methods.

Reforms hitherto have not necessarily been effective, however, and cannot be said to have established themselves firmly: In spite of the fact that more than 10 years have passed since the Provisional Council on Educational Reform began its deliberations, the problems cited above have not been resolved.

The following section contains examples of schools in Japan that have introduced distinctive education systems as trials of new types of education.

Holistic Education. Holistic education is not education biased toward acquiring knowledge to prepare for examinations, but is that aimed at nurturing abundant

creativity and dynamism. Holistic education's primary focus is the development of the whole person, placing importance on individuality.

With religion as its cornerstone, the principal pillars of holistic education are not only learning, but also spiritual life based on life in the real world and religion. Curriculum components include work education and Danish gymnastic exercises (for example, Tamagawa Gakuen and Jiyu Gakuen in Tokyo).

Respecting Independence. The policy of education that aims to respect independence entails removing pupils from the conventional system of one-sided guidance by teachers, recognizing pupils' individuality, and giving them independent control over their own conduct and actions at schools.

Specifically, some elementary schools seek to enhance pupils' independence through a policy of having no bells to mark the beginning and end of periods; of setting no homework every day (instead periodically giving pupils issues to study); of having no marking of registers in groups; and of not requiring pupils to carry their school bags to class. In addition, in some schools the entire school is divided into six "houses," and by having all activities at pupils' meetings and events carried out on a house basis, the independence of pupils is developed (for example, Mito City Kotobuki Elementary School in Ibaraki Prefecture; Ina Gakuen High School in Saitama Prefecture; and Jiyu Gakuen in Tokyo).

Selection System. This is a system in which pupils can opt for study based on either courses or subjects, according to their interests and aptitudes. Going even further, some schools have introduced systems in which the pupils themselves can compile their own curricula. With regard to subjects in which there are aptitude differences between individuals (such as in mathematics, English, physical education, and arts and crafts), there is a trend toward the introduction of a system of selecting subjects according to degree of difficulty and priority.

Specific examples are a flexible system in which tuition is provided for different ability levels; science and mathematics subjects and courses aimed at educating gifted children, enabling them to adapt to progress in science and technology; guidance and team teaching after children are divided into their selected courses; and a comprehensive selection system with 164 available subjects and courses (for example, Yokote City Yokote Minami Junior High School in Akita Prefecture; Mobara City Minami Junior High School in Chiba Prefecture; Shimada City Mutsuai Junior High School in Shizuoka Prefecture; Toin Gakuen High School in Kanagawa Prefecture; Sundai Kofu High School in Yamanashi Prefecture; Seifu High School in Osaka Prefecture; and Ina Gakuen High School Saitama Prefecture).

Individual Study. Similarly to the selection system, individual study is another system that permits pupils to select the content of their studies, according to their interests and aptitudes. It differs from the selection system, however, insofar as the pupils do not have a choice of individual subjects, but rather of the content of the study to be undertaken for each subject.

Specific examples of this approach are module study, in which scientific experiments are conducted separately on different tables, and "branching study," in which individual pupils determine what to investigate and how to do so in order to

develop individual items of further study (for example, Yokote City Yokote Minami Junior High School in Akita Prefecture).

Welfare Education. There also are schools that incorporate welfare activities into the education they provide by means of interaction with elderly people and volunteer activities.

Specifically, by making use of time for good citizenship classes and other periods, children at the elementary level receive the practical experience of visiting the homes of senior citizens and collecting and recycling milk cartons, aluminum cans, and telephone cards (for example, Uto City Uto Elementary School in Kumamoto Prefecture and Karita-cho Yobaru Elementary School in Fukuoka Prefecture).

Information Education. In approaching the advanced information society, some schools are shunning learning based solely on the printed word; instead, they are focusing on developing people capable of coping with the computer age by providing education directed at enabling students to acquire literacy through information.

Specifically, computer universities are being established that have only a single department—a computer science and engineering department. They are equipped with facilities that enable every student to have a personal computer workstation, and they hire staff that is able to use these facilities to educate students (for example, Keio University Shonan Fujisawa Campus in Kanagawa Prefecture and Aizu University in Fukushima Prefecture).

International Understanding. Education for international understanding is provided in response to Japan's growing internationalization, oriented toward educating people who will be able to interact with the rest of the world. To reach this goal, some universities are improving education in foreign languages and actively conducting international exchanges—although the focus is not entirely external. Education is provided as well to enhance an understanding of the home country and its regions.

At the elementary and secondary level, this education can include “contact” lessons and festivals to which foreigners are invited. At the university level, examples of this type of education include class instruction entirely in English; the drafting of curricula that enable students to choose a primary foreign language other than English; the provision of intensive instruction concentrating on acquiring knowledge of foreign languages through eight hours of instruction per week over a period of a year and a half; discussion periods with overseas exchange students; and active steps to attract foreign lecturers (for example, Sagara-gun, Kizu-cho Saganakadai Elementary School in Kyoto Prefecture; Uto City Uto Elementary School in Kumamoto Prefecture; Kokusai University in Niigata Prefecture; and Keio University Shonan Fujisawa Campus in Kanagawa Prefecture).

Developing Powers of Self-Expression. The objective of this form of education is the refinement of an ability needed in an international age—the ability to assert one's own views.

Examples are the provision of foreign language instruction that uses such methods as writing haikus, novels, and poems; and the provision of instruction

centered on discussions related to responding to internationalization and international understanding (for example, Aizu-wakamatsu City Daiichi Junior High School in Fukushima Prefecture; Keio University Shonan Fujisawa Campus in Kanagawa Prefecture; and Kokusai University in Niigata Prefecture).

Practical Education. The first principle of practical education is not academic study. Its purpose is not the acquisition of knowledge only, but learning how to think, deal with, and resolve problems. It also is aimed at developing adult members of society who are able to understand basic corporate and economic principles and can make use of their own practical experiences.

Among the types of practical education provided is a project method under which subjects for practical work and faculty members in charge are determined each year, and the provision of practice, through seminars provided from the time of entering the university, in such activities as the company establishment (for example, Kobe Business School in Hyogo Prefecture and Tama University in Tokyo).

Adult Education. To cope with the impending decline in the number of children in Japan, a direction that some universities are adopting in their management is one of creating education structures targeted at adult members of society. Such universities have established four types of courses and programs to suit the needs of mature students: (1) a one-year intensive course; (2) a two-year evening course; (3) a system of two-year evening courses with an overseas exchange program; and (4) a program for accumulating credits (for example, Kobe Business School in Hyogo Prefecture).

Cooperation Between Universities and Industries. At the university level and higher in particular, interaction and cooperation take place between industry and schools. Attempts are being made to make fruitful use of research findings.

Some universities are maintaining cooperative relationships with industries by conducting surveys through liaising with company personnel managers prior to the establishment of courses, and through regular exchanges thereafter (for example, Kobe Business School in Hyogo Prefecture).

University Reform. In some cases, universities are reforming the pursuit of learning by halting conventional one-way instruction and devising new forms of instruction in conjunction with the students as part of an overall effort to rebuild themselves and to reduce their perception as places in which students relax and have a leisurely time. Accordingly, some universities are providing education aimed at developing general powers of judgment and design capabilities that can be applied consistently to findings in all disciplines.

Some universities have adopted such schemes as drafting detailed instruction plans at the beginning of each academic year. The resulting documents can be as long as 700 pages in length and contain the principal points for lectures, semiannual lecture systems, evaluations by students of instruction received, and “office hour” and “advisory group” systems to ensure close communications between staff and students (for example, Keio University Shonan Fujisawa Campus in Kanagawa Prefecture and Tama University in Tokyo).

The Privatization of National and Public Universities. With regard to the privatization of national and public universities, progress is being made with the implementation of plans for the public establishment and private management of universities. National and local government institutions will contribute actively to the establishment of universities, although their management will be assigned to the private sector.

The case of a public university in a certain part of Japan provides an example of this, but coordination with the prefectural authorities has not been conducted well. As a result, it has been revealed that many aspects of the relationship between the administrative authorities and the university are yet to be resolved.

Collaboration Among Graduate Schools. Collaboration is taking place among universities with inadequate funds and those with ample funds but insufficient staff. Noteworthy objectives are to form complementary relationships with national research institutions, to invigorate the research environment, and to improve basic research.

For example, the Saitama University Graduate School of Science and Engineering is Japan's first graduate school formed through collaboration between government ministries and agencies, having been established by the Saitama University Graduate School of Science and Engineering under the jurisdiction of the Ministry of Education; and the Institute of Physical and Chemical Research (Wako City, Saitama Prefecture), affiliated with the Science and Technology Agency (for example, Saitama University Graduate School of Science and Engineering in Saitama Prefecture).

Equipment and Facilities. Some universities are developing educational equipment and facilities that will be able to cope with unconventional educational methods, including education through selection systems and individual study; participatory instruction that differs from the conventional, one-sided transmission of knowledge; and information education.

For example, some institutions can make a large amount of space available through the use of movable partitions between classrooms and corridors. These institutions are equipped with multipurpose halls and open spaces, and have chairs that remain comfortable even after long periods of sitting down. They are open around the clock so that every student has a workstation, and have the staff and facilities to make computer education possible (for example, Tsu City Minamigaoka Elementary School in Mie Prefecture; Oga City Oga Minami Elementary School in Akita Prefecture; Keio University Shonan Fujisawa Campus in Kanagawa Prefecture; and Aizu University in Fukushima Prefecture).

Lifelong Education

The Necessity of Lifelong Education. In Japan, the percentage of students proceeding to institutions of higher learning has grown rapidly; it now is no exaggeration to say that Japanese society has arrived at the era of high academic careers. The actual situation, however, is that the existing school education no longer is sufficient to cope with the demands of Japan's constantly changing

society. In other words, education in Japan has reached its “saturation point.” This means that lifelong education now has become important.

In Japan, corporate education also has been active, but not all corporations are capable of adapting to the rapid technological revolution. It henceforth will be necessary to view corporate education in the context of lifelong education. When considering education in the future, individuals also will be expected to have an appetite to study not only for a limited time but for life. Lifelong education refers to all forms of education except that received in school; it includes education other than existing school education, such as preparatory schools (for example, cram schools and prep schools known as *yobiko*), supplementary education for qualifying examinations, and free (non-accredited) schools. Accordingly, when adapting to the diversification of education other than that from the existing traditional education, prep-school education as a form of lifelong education also becomes important.

There are four reasons that lifelong education is needed in Japanese society: (1) problems caused by a decreasing number of children; (2) career design; (3) adaptation to advanced technology; and (4) the era of self-education.

1. **Problems caused by a decreasing number of children.** Of the world’s advanced countries, the problems caused by a decreasing number of children are most serious in Japan. A further decrease in the number of children in the future will have a major effect on the management of universities, which is to say that the percentage of students proceeding to university already has increased to date and, with an expected decrease in the number of children in the future, the day is not so far off when all students that wish to go to college will be able to do so. Accordingly, universities have expanded into lifelong education as a means to survive. This adaptation has not risen from educational concerns, but as a natural course of action based on market principles.
2. **Career design.** As Japanese society becomes a high academic career society, the former era in which a higher academic career meant a better job is about to come to an end. The current state of affairs is that occupations have become specialized, individual expertise is coming to be appreciated, and the emerging need of society is to acquire not only academic achievement but also individual expertise. Accordingly, it is becoming necessary for Japanese to educate themselves by designing their own careers; this has brought about an era of lifelong education.
3. **Adaptation to advanced technology.** The speed of technological development in various areas is accelerating. Thus, school education alone no longer is sufficient to keep up with the advance, giving rise to the need for a form of lifelong education; this is called “refresh education” and includes not only education for the understanding of advanced technology but the reeducation of teachers, who are struggling to solve confusing educational problems in a society that has become increasingly complex. With the labor force becoming more flexible and mobile, new employment forms, such as annual salary contracts and *shokutaku* (non-regular employment), and other alternatives to traditional lifetime employment have started to emerge. This could cause difficulties for

existing corporate education, bringing close the time in which it will be overtaken by lifelong education.

4. **The era of self-education.** Now is the time in which Japanese must educate themselves, in contrast with past times in which education was nothing more than obligatory school learning. This point differs from the three others above in that society no longer demands education, but it now emphasizes the importance of studies based on the individual's will. This is the essence of lifelong education: an individual studies not because of the guidance of those above or the demands of his circumstances, but does what is necessary in order to reach his own objectives. In other words, lifelong education is education to raise one's own intellectual level.

Roles and Examples of Lifelong Education. In its July 1992 report, the government's council on lifelong education defined a society in which there is lifelong education as a "society in which people are free, at any time during their lives to choose educational opportunities and to study, and in which the results of the study are assessed appropriately."

To study the ideal form that lifelong education should take, expected roles and future issues to be addressed are set out below in accordance with the institutions providing the education.

1. **Institutions of higher learning (universities and graduate schools).** It will be the role of institutions of higher learning to provide high-level, systematic, and continuous opportunities for study. They also will have to provide practical professional and technical education in line with the requirements of society.

Toward the creation of a society with lifelong education, issues that must be addressed in the future are those of ensuring that institutions of higher learning are open to the community; that they further expand and improve the opportunities for study offered to adult members of society; and that they contribute to the community.

2. **Institutions of elementary and secondary education (elementary, junior high, and high schools).** The expected role of institutions of elementary and secondary education is one of acting as places for cultivating the basis on which character-building takes place; as places for giving people the basis for lifelong study (that is, encouraging their enthusiasm and abilities); and as places for providing study opportunities that are very familiar and close to residents of local communities.

To ensure that elementary, junior high, and high schools are rooted firmly in local communities, future issues to address will be those of utilizing the educational capacity of local communities and of contributing to the community.

3. **Facilities for social education, culture, and sports.** The expected role of facilities for social education, culture, and sports will be the basic one of satisfying the diverse learning needs of local residents and supporting local residents' wide-ranging study activities.

These types of facilities contribute to a society in which there is lifelong learning because of their capacity to promote social education, culture, and sports, thereby meeting the needs of local residents. They need to respond to

increasingly sophisticated and diverse learning requirements, and their organization and administration need to be invigorated.

In Japan, when education is considered, corporate education and prep-school education (that is, education other than that received in school and the forms of lifelong education discussed above) should be noted in particular. They will be discussed next.

Corporate Education

In Japan, the general form of employment is that one searches for a job during his last year in college; if he is hired, he starts working after graduation in the spring. Once hired as a new graduate, it is still common for a Japanese professional to stay with the same company until he retires. In distinct systems that exist in Japanese companies, education is provided in-house, by which companies not only teach new employees everything they need to know as members of society, but also provide specialized training or education as necessary until retirement.

The principal type of in-house education is a compulsory system imposed by companies on their employees, the purpose of which is very much that of in-house professional training; thus, strictly speaking; this may differ from lifelong education. In-house education within companies is a system that has developed under the auspices of the system of lifetime employment because companies invest in their employees in this form of in-house education, premised on the stability and continuity of employment.

In recent years, however, as the labor force has become more flexible and mobile; new types of employment have appeared that differ from traditional lifetime employment (for example, annual salary systems and part-time employment); and in-house company education is expected to change correspondingly. The principal components of in-house company education are described below, followed by possible issues in the future.

1. **Orientation education.** Japanese companies provide induction training to all new employees when they first join those companies. The exact type of training varies according to company and occupation, but for a period of time ranging from one month to as long as one-half year employees receive an education in how to behave as citizens and in how to use a personal computer. They also learn basic financial, legal, and other knowledge necessary for their occupations. In many companies, employees during this period earn experience in various forms of work in a number of departments through a system of job rotation.
2. **“Refresh education.”** In Japan, some large companies provide what is known as “refresh education,” which principally is intended for the purpose of coping with rapid advances in technology. In such courses, employees receive training to learn new technologies. They are not awarded any particular qualifications as a result of undergoing this training; but, in part because the training is directly useful in the work in which they actively engaged, the Ministry of Education encourages it.

3. **Internal qualification systems.** In Japan, internal qualification systems exist in such large companies as Hitachi and Fujitsu. These companies have their own independent professional schools and educational programs, along with staffs that complete various courses and are awarded completion certificates, although these are valid only within those companies. By taking these courses, staff members who are only high school graduates are treated in the same manner as graduates of professional schools with regard to such matters as salary increases; thus, they provide a good incentive for employees.
4. **Dispatching staff outside companies (domestic and overseas university study, training, attendance of seminars and lectures, and so on).** Another widespread practice in Japan is for companies to have their employees' abilities developed through the use of external education institutions, for example by sending them to graduate schools and research institutes. In such cases, the companies either bear all or part of the costs. Approximately 90 percent of companies subject employees to training by private education institutions or economic organizations or have them participate in seminars or such programs as short training courses.

Issue:

- In recent years, the labor force has become more flexible and more mobile. Along with this, employment is being transformed from traditional lifetime employment to such forms as annual salary systems. How should the forms of internal company education change in response to this?

Preparatory School Education

According to data, even when education for supplementary study and exam preparation is the only concern, an average of 46.3 percent of Japanese students from kindergarten through high school turn to a preparatory school education in some form. As pointed out earlier, the harm done to pupils by prep-school educations (for example, the stress and sleep deprivation that results from the system of competitive examinations), has come to be regarded as a problem, although, at the same time, the fact remains that a prep-school education plays the role of supplementing school education.

The following are four specific examples of prep-school education currently practiced in Japan, and of the principal similar systems. The future issues also are listed afterward.

1. **Education for supplementation of study and exam preparation.** Study preparatory schools form one part of prep-school education. Their objective is to provide education for supplementing study and for preparing for exams. Currently, the following three areas comprise the main types of study preparatory schools:
 - supplementary preparatory schools (mainly for pupils at elementary schools and junior high schools, principally providing study guidance to supplement school education);

- preparatory schools to assist entrance to higher-grade schools (principally providing guidance to pupils in junior high schools and high schools to prepare for examinations); and
- comprehensive preparatory schools (which combine features of both supplementary preparatory schools and preparatory schools to assist entrance to higher-grade schools).

These types of preparatory schools help to ensure that, from kindergarten education through high school, and through higher education, the academic level of pupils and students is maintained above a certain average. In addition, in school education, the amount of knowledge necessary is around only one-third of what students currently receive and, because teaching at preparatory schools concentrates on the minimum necessary points, they are highly efficient academically, playing a role that supplements school education. Preparatory schools are forms of enlarged preparatory schools that provide education focused only on taking university entrance examinations.

- 2. The identification and development of individual character traits and aptitudes.** Prep-school education plays a role of identifying children's individual character traits and aptitudes at an early stage, and sets about developing them. For example, students may receive instruction in piano playing or calligraphy, and the prep schools provide art and engraving rooms and sports clubs. In some cases, people subsequently use special skills and talents they learned (or had blossom) in prep schools to become professionals in those spheres.
- 3. The acquisition of specialist knowledge.** In Japan, there also is a form of prep-school education to prepare people to take examinations for such national qualifications as those of certified public accountants and lawyers. For example, to acquire the specialist knowledge required for law exams, study courses lasting two to three years on average generally are required.
- 4. Job-search seminars.** Seminars are held in Japan to help people in their job searches, often for short terms of one or two days, during which the subjects dealt with include assessments of suitability for jobs and behavioral training. In addition, there are so-called schools that provide courses lasting from several weeks to six months for students who hope to find special types of employment (for example, jobs as announcers, for which particular training is required, and jobs as flight attendants, which are particularly difficult to get).

Issues:

- Japanese society is learning that prep-school educations can harm students, for example, through stress, sleep deprivation, and the lack of physical exercise that result principally from the system of competitive examinations.
- For each of four areas above, the costs are quite high, which imposes an economic burden.

Education and Advanced Information Technology

Qualitative Changes in Education Due to Information Technology.

Advanced information technology, typified by the Internet and multimedia, is about to take a major role in the qualitative improvement in education and education reform. The Internet in particular is regarded as important, providing, beyond the limitations of time and space, the means of exchanging and sharing information internationally, a center for the dissemination of information, and access to live information (databases) worldwide in the form of multimedia. Multimedia, on the other hand, is attracting attention as a technology that enables the integrated processing of text, colors, sound, images, and animation, and is becoming the medium of human communication, facilitating the understanding of information through the human senses.

In the area of education as well, advanced information technology is expected to become a driving force in improvement and reform. Specific areas of impact of advanced information technology on education are as shown below.

1. The qualitative improvement of education:

- the facilitation of understanding using visualization through multimedia technology;
- the provision of teaching materials that are easy to understand, such as electronic libraries and course materials;
- support to find and solve problems using online, real-time multimedia and databases;
- the promotion of interaction (two-way communications, reciprocal interaction, and information dissemination);
- the implementation of model analysis and quasi-experiments using simulation and gaming;
- the implementation of quasi-experience using virtual reality; and
- the emergence of a new academic system.

2. The improvement of the education environment:

- the correction of the polarization of the population and knowledge (the regional educational gap);
- the implementation of remote education;
- the promotion of educational internationalization;
- access to various online, real-time databases;
- the implementation of individual study and adaptable education;
- support for lifelong education, for example, “refresh education,” family education, and special education; and
- support for children, the elderly, the disabled, the “informationally

weak,” and the “educationally weak” (that is, those that are denied entry into schools).

3. The reform of the education support system:

- the computerization and operation of classrooms, research laboratories, and campuses;
- the development of libraries and computer centers;
- the improvement of educational and administrative systems;
- the reorganization of academic societies; and
- the reform of educational administration.

Educational Issues Connected with Information Technology. When advanced information technology is applied in educational areas, methods of incorporating at least the following issues should be discussed thoroughly.

1. Information education:

- information (media) literacy education: education in the basic knowledge and fundamental skills required of everyone related to information processing, possibly expressed as the “reading, writing, speaking, and arithmetic” of information;
- basic education in information: basic education depending on expertise;
- education for advanced usage of computer networks: expert education related to information transmission, database searches, data science (that is, data extraction, analysis, estimation, and prediction), modeling, simulation, and so on;
- multimedia education: education to support preparation of electronic libraries, course materials, quasi-experimental systems, and presentation techniques; and
- remote education: autonomous, dispersed, and cooperative remote education to improve effectiveness and reduce regional gaps in education, and to cope with the full-scale internationalization of education.

2. The provision and operation of the education environment:

- information base (infrastructure): the development and operation of an information base to enable integration of education, research, administrative management, and international exchange;
- information environment: the provision and operation of a public information domain, comprised of high-performance computers, high-speed Internet connections, mega-capacity databases, and groupware known as computer assisted cooperative work (CACW)

- for the implementation of “academic community”; and
- media environment: the development of an advanced information environment to implement simulation, gaming, quasi-experiments, virtual reality, and so on effectively, using various media.
3. **Education and the training of teaching staff.** “Refresh education” and the training of teaching staff needed for effective application of advanced information technology in educational areas.
 4. **The education of the network citizen.** Education with regard to intellectual property rights, information ethics, and the formation of character in a networking society.

Issues for Self-Reform in Education in Japan

The most important thing in solving the various problems of education in Japan is to be firm in establishing concepts, ideas, and plans for the fundamental reform of education based on the first chapter of *The Profiles of Society and Man in the 21st Century*. In order to carry out genuine reform, leadership and the power to deliver are essential, and the formation of a social consensus is indispensable as well. Education reform implies the establishment of an ideal education system that will teach and train the people who will shoulder the burdens and support the society of the twenty-first century. In order to achieve such a goal, the momentum, reticence, and inaccessibility of the present education sphere must be broken down; accomplishing this will require the reorganization of the role and authority of the education administration as well as the introduction of both competition and more relaxed rules and policies. It also will require an improvement in the efficiency of the education system and greater productivity related to the investment in education. Within these education reforms, an understanding of the importance of domestic education parallel to school education and reforms in the social system relating to domestic education are needed as well.

In Japan, the contemporary problems of a decreasing birth rate and an aging society signify a future decrease in the labor population, which, in turn, is expected to cause such serious problems as a decline in social and economic growth, pressure on government finance programs for education, increases in per capita costs for education, acceleration of the decrease in the birth rate, and an overall decline in learning. To cope with these problems, the means for creating an effective education system capable of promoting social vitality will have to be considered. Government finance programs for education will have to deal, of course, with the problems of the decreasing birth rate and the aging society; therefore, measures developed through long-term policies will be necessary. The promotion of greater participation in society by women and enhanced employment opportunities for foreigners, as well as the establishment of a social system that provides more opportunities for the utilization of the talents and abilities of senior citizens who still have the vitality to work and contribute to society, are important concerns that still require attention. Furthermore, the role of domestic education in the wake of a

decreasing birth rate and the possibilities for lifelong learning programs that can support an aging society must be considered, too.

It is said that the progress of technology is the engine of social reform. It is difficult, however, to maintain an ability to cope with the rapid advancement of recent technology and the resulting social change only through conventional school education. Indeed, the existing education programs at cram schools or in businesses can be regarded only as auxiliary means for solving this problem. What is required from this point forward is the establishment of a new, lifelong education system that is liberal, wide, and diverse, and can provide for education needs at any specific time during a person's lifetime. We are entering an age in which individuals take responsibility and determine their own lives. In light of this, what is required is a system of cooperation between the government and private sector that guarantees the opportunity for lifelong learning—without excessive dependence on cram schools or businesses. In this context, it also is vital that proper value and social position be given to lifelong education within society.

Society in the twenty-first century is likely to be supported by developments in market functions and information technology, marked by the diminution of social and economic borders. As a result, globalism should become established through the promotion of internationalism in several facets of society. Furthermore, the age will come in which the utilization of information technology will be needed to increase social and economic efficiency. Future education will be required to train people who can cope with globalization and an information-oriented society. The leaders of the twenty-first century, in addition to having the ability to locate and take care of problems, will have to be able to use the latest in information technology, have the skills to play an active role on the international stage, and possess the flexibility of thinking that will enable them to interact with a wide diversity of cultures. It therefore will be desirable to establish an education system that will emphasize individualism, creativity, independence, internationalism, social skills, and culture.

There are a great number of problems that need to be solved in order to accomplish the necessary education reforms in Japan for the twenty-first century. It is particularly important to grasp the present conditions of—and to examine specific measures to solve the problems concerning—the following seven issue areas.

Deregulation and Decentralization in Education. *Policy for reform: breaking down uniform education.*

In Japan, the detriments of the uniform education controlled by the Ministry of Education are the likely reasons for the basic problem in general school education, and the relaxation of regulations and policies are the most promising means of correcting the problem. In this sense, the problem of decentralizing authority in administration is much the same as the problem of administrative reform when considering the relaxation of economic regulations and policies.

Since the recommendations of the Special Education Council in the mid-1980s, “deregulation” has set the direction for education reform. Deregulation was based on the concept that competition would be introduced among schools by relaxing the strict regulations and policies of the Ministry of Education and advancing liberalization, which would pave the way for diversification and

individualism in education. The underlying factor of this concept, however, was the recognition by the general public that the education system, as controlled by the Ministry of Education, was unable to maintain its pace with the changes in society, and was beginning to show a variety of ailments. Deregulation so far, however, has proceeded only very slowly, and only in limited areas, moving even more slowly than economic deregulation.

Main issues for consideration:

1. **The roles of the central government and local governments.** To decentralize the uniform system for elementary and secondary education, which the Ministry of Education currently steers, and to promote greater diversity in education, it is necessary first to ensure school autonomy by having the Ministry of Education delegate authority to an education committee, which, in turn, should delegate authority to the schools themselves. Actual and substantial decentralization of authority must be carried out. Having the mandate to manage independently, these schools would strive to improve the quality of education. There can be no diversity of education so long as schools are established without autonomy of management. The abolition of the authority of the Ministry of Education to appoint the chairmen of school boards (by means of acquiescence), the relaxation of standards for the establishment of schools, and the simplification and flexibility of the teacher's guide book (including the generalization of the teacher's guide book, the thoroughness of basic education, and a reduction in the number of school days) all are necessary measures. Without the liberalization of school management and the resulting diversity of education, the liberalization of the school zoning system will produce only a choice to select schools with high rates of success in college entrance examinations and a high percentage of students who go on to a higher education.
2. **The establishment of consumer sovereignty in education through a flexible school zone system.** As the decentralization of authority in education administration continues to progress, flexibility within the system, including the abolition of the school zoning system, also is necessary. The present degree of flexibility in the school zoning system is not sufficient. Education reforms must not be expected only on the part of the suppliers of school services, but, instead, also must reflect the intentions and opinions of the users. This also is the means of fostering change on the supply side. Just as the establishment of consumer sovereignty is a well-known policy in economic reform, the establishment of that same principle is needed in the field of education as well. As a way to establish the sovereignty of the "consumers" of education (that is, parents and children), it is important to be flexible when deciding where students will go to school, with the ultimate aim of abolishing school districts entirely. The opinions of the student's guardian should be confirmed before approving admission to a particular school, and the schools need to take the responsibility of making available all pertinent information. Maximum emphasis by the school board and the school itself should be given to the opinions and wishes of the student's guardian.
3. **The reactivation of college education.** The Ministry of Education also has provided strict regulations and policies concerning college education. It is

necessary to revitalize college education by expanding the autonomy of colleges, including such measures as the introduction of competition through flexibility of the standards for the establishment of colleges, faculties, courses, and lectures, and by establishing management policies including the privatization of national universities. In addition, the approval of a six-year program in the natural sciences department, the approval of the introduction of a two-track system in graduate school (with an emphasis on education, the provision of separate courses for professional training, and training in research), and the relaxation of the regulations that ban publicly employed researchers and educators from maintaining two jobs simultaneously also are necessary.

4. **The introduction of education that emphasizes individuality.** The conversion from uniform education to an education system that respects individuality requires an entrance examination system that emphasizes individuality. This entrance examination system must be established not only in the fields of art and physical education, but also in such social sciences as law and in such natural sciences as mathematics. It also is necessary to pursue deregulation, introduce individualized alternatives (such as skipping a grade or studying abroad) into the regular curriculum, and expand the growth of a system uniting junior high and high schools. In the present system, higher-level students have fewer chances to study abroad early in their school careers.

Fostering Creativity and Independence. *Policy for reform: the conversion to participatory education.*

The reason that teachers have trouble assuming leadership in a classroom is that it has become difficult to maintain an education system in which teachers instruct children unilaterally. There is the need for the conversion from an education system based on “teaching” to one based on “learning”—specifically a change from the traditional style of education in which knowledge is “fed” to the students to a style of participatory education in which the education environment enables children to learn voluntarily. Such a conversion leads to the cultivation of creativity and independence. Elementary school children require contact with things that will surprise them. Through discussing the event that surprised them, students come to know the joy of learning by experience, which encourages them to try new experiences. Good teachers are especially important in educational programs like as personal computer classes. Indeed, the text materials used in a classroom are one type of virtual reality; but present-day children have experienced virtual reality through television and video, and their eyes and ears already are accustomed to the stimuli, making it extremely difficult for them to have refreshingly surprising experiences. It is necessary to return to basics, and to have children participate in practical experiences in the learning place. One example of such an experience might be to allow the children actually to pick up and classify different kinds of stones, instead of providing them with a list of descriptions of stones that already have been classified for them.

Main issues for consideration:

1. **Improvement of teaching quality.** In the present day, it is impossible for teachers whose classes consist primarily of giving lectures to experience success in achieving the conversion to participatory education. Therefore, an

improvement in the quality of the teachers is necessary by, for example, aiming to set a limit of 20 students per classroom. The employment of high-quality teachers will require encouragement to obtain such qualifications as graduate degrees, as well as an improvement in the ways in which teachers are treated. Teachers should be allowed to select text materials freely, which means that the textbook screening system and the textbook cooperative selection system should be abolished. It is essential to recognize and affirm that text materials are nothing more than just one part of the teaching materials (the formulation of simpler, less detailed, non-prescriptive learning guidelines; and the liberalization of the use of supplementary reading materials) so that basic scholastic qualifications, which provide the necessary academic foundation for fostering creativity, can be retained firmly.

2. **Reaffirming the importance of basic learning.** In order for participatory education to work, it is necessary for the children to master in full the basic skills of reading, writing, speaking (expression and debate), and mathematics in basic education programs. This basic education also should include instruction in the English language (the suit the expansion of employment opportunities for native speakers of the English language) and in personal computers (but instruction for the teachers is necessary first). Full mastery of basic learning in elementary and intermediate education programs will require a great deal of homework and a large number of examinations. This type of teaching has been left far too much to the cram schools in recent years, and, in this sense, the implementation of an education system that will expand the scope of individual choice for learning is desirable. This idea is applicable to college education as well as elementary and intermediate education. The material taught at the faculty level of a university is part of the basic education program, and homework and examinations are indispensable. Creativity can be developed only on a firm foundation.

The Response of Education to Computerization and Internationalization. *Policy for reform: the absolute implementation of education for basic literacy concerning information, foreign languages, and culture.*

The acquisition of a practical ability to utilize both information technology and a foreign language, as well as the knowledge necessary in a cosmopolitan society, is absolutely essential in this day and age for one to keep pace with the rapid progress of advanced information technology, represented by the spread of the Internet, and with the continual internationalization of society that results. Although educated children of previous generations were expected to have mastered what was known as the “three basic literacies” of reading, writing, and arithmetic, the children of the twenty-first century will find it necessary to learn the additional three of information, foreign languages, and culture. Furthermore, it will be through this education that an awareness that will enable the acceptance of the requisite diversification of cultural values for the developing international society can be promoted.

Main issues for consideration:

1. **The improvement of teaching quality and the development of education software for information literacy.** As the present society becomes more and more information-oriented, education for “information literacy” has become indispensable for all. Although the implementation of such an education program naturally requires the preparation of the foundations for the information sciences in each of the schools (such as the installation of personal computers), it is even more imperative at the present time that the teachers necessary to impart the information-related education be trained as rapidly as possible. Statistics reveal that, even though approximately 50 percent of Japan’s elementary and junior high school teachers have some skill with personal computers, only about 20 percent are able to use them fully, a situation that offers little hope for adequate information-related education. It therefore will be necessary first to improve teaching quality by providing training programs for teachers that will encourage them to acquire the proper qualifications.

Furthermore, in addition to the installation of personal computers and training programs for teachers, the development of education software also is important. At the present time, a sufficient amount of educational materials that utilize personal computers has yet to be developed; therefore, the burden of making such materials inevitably falls on the teachers themselves as they go along. As a result, the spread of education programs that utilize personal computers has been slow.

The implementation of education programs aimed at information literacy therefore requires first of all the development of education software and then the development of teaching personnel who are capable of making full use of such materials.

2. **The implementation of education programs aimed at cultural literacy.** In addition to an education program for foreign languages geared toward practical application, another type of education program, which is necessary for the coming internationalization of society, is an education program aimed at cultural literacy. Such programs must impart the knowledge and skills (such as debating) necessary for survival in a developing cosmopolitan society, international common sense and ideas, and the knowledge and information about each student’s home country that an educated person would be expected to know. Concretely, these programs are expected to internationalize the content of education in elementary, junior high, and high schools, and, in particular, give college students the chance to experience living abroad by, for example, incorporating a junior year–abroad program into the regular curriculum at schools, including national and public universities, and to have them deepen their recognition of Asian culture or understanding of Western culture.
3. **The promotion of a system to host foreign students.** In preparation for internationalization, the promotion of a system to host foreign students is extremely important. To accomplish this, the repletion of scholarships for foreign students and the flexibility in awarding them, and the consolidation of an education system for Japanese as a second language (JSL) can be singled out as being especially important. In particular, although a method for teaching the Japanese language in English has been developed in the United States, a

similar method in Japanese has not been perfected in Japan. Furthermore, there are no standardized textbooks for Japanese. In consideration of the present situation, and as means of more fully consolidating the foreign student centers that have begun to spring up on the campuses of so many colleges and universities, it indeed is desirable that such JSL materials and programs be completed as soon as possible. In addition to language education, the support of research and study programs, including the expansion of stay-at-home, home-visit, and host-family programs and the establishment of a counselor system at colleges (and graduate schools), also will be important to provide education in the areas of Japanese life and culture.

The Role of Education in the Family. *Policy for reform: the reaffirmation and improvement of the concept of the “role of the parent.”*

In this rapidly changing age, marked by the inexorable advance toward internationalization and the orientation toward information, the old image of the home has changed and diversified. It now is necessary to reaffirm the role of parents and of the current status of education in the home. In the United States, which, after many years of great efforts to solve the problems of education, is far more advanced than Japan in the area of education reform, the importance of education in the home prior to entering school once again is coming under discussion. Up to this point, child abuse has been considered a problem peculiar to the United States, but in Japan the number of children’s deaths that occur during disciplinary or punitive action is being reported with greater frequency; as a result, the problem of domestic education no longer can be considered an outside problem. The time finally has come in which parents need to reaffirm the domestic role of education, grasp the concept of the “role of a parent” and how they should fulfill their roles, and strengthen and improve their educational roles in the home with the help of social and community support.

Main issues for consideration:

1. **The reaffirmation of the domestic role of education.** First, it must be recognized that parents are the primary teachers of children, and that the domestic role of education be reaffirmed. Parents have the obligation to fulfill their duties in the home in order to accomplish the formation of humanistic qualities in the child, such as the concept of the family, familial love, love of one’s neighbors, and respect for the elderly, and to provide opportunities to learn discipline, morals, ethics, and the rules of society that, up to now, have been left to the schools to teach. Furthermore, the cultivation of a child’s individuality through sports and artistic pursuits also is an important responsibility of domestic education.
2. **Social and community support of the “role of a parent.”** In order to fulfill the domestic role in education as described above, social and community support is indispensable, especially in present-day Japan, which is characterized by an increasing number of nuclear families. This social and community support should be provided in the form of such programs as re-educational programs for parents, parent–child classes, and infant and embryo education programs with personnel and financial support provided by the government. Furthermore, such supportive action as the establishment of a “family day” (for

example, every Wednesday) to encourage fathers to return home early and more often, and the introduction of office visiting days on which children can accompany their parents to work might be considered as well.

Women comprise an important labor pool in an aging society. In accordance with the advancement of women in society, it is especially important to implement greater flexibility in kindergarten and nursery school opportunities and facilities, the proliferation of nursery schools (including nurseries within business enterprises), and the consolidation of a system that provides for maternity leaves and leaves of absence for raising children—and the subsequent return to work.

It also is possible that social and community support can be provided for establishing prescriptions for values and morals concerning such problems as controls over television programming and by providing opportunities to participate in such social activities as volunteer work and the Boy Scouts.

3. **The creation of a social network.** Although social and community support is necessary indeed for the so-called return of the parents to the family, it by no means is sufficient by itself. The present-day family consists of only a vertical relationship comprised of the parents and the children, without the presence of the other relatives who used to characterize the traditional Japanese family—so it is becoming increasingly difficult to form “diagonal” relationships with people of differing ages, such as uncles, aunts, cousins, and so on. Such interaction between people of different ages can create rich intergenerational relationships and provide a broader foundation for children’s education. With the number of nuclear families expected to proliferate in the twenty-first century, it will be important for children to establish rich human relationships by creating a network of vertical, horizontal, and diagonal personal relationships through social and community connections based on the networks within the community of their parents themselves. It also is desirable, especially during elementary and secondary education, that the relationships between students and society be strengthened through, for example, periodic visits to schools by various members of society who share their knowledge and experience and thereby participate in education.

The Establishment of a System to Evaluate Education. *Policy for reform: the diversification of evaluation standards and the disclosure of information.*

In considering the need to establish a system for evaluating education, the reactivation of education is now in demand, and the maintenance of quality in education will become increasingly difficult with the advancement of the liberalization and diversification of education through deregulation. A system of evaluation is indispensable to maintain the quality of education, and instead of being confined just to derivatives of the current system, standards for the evaluation of entrance and graduation examinations should be included, too. Such standards are influenced heavily by social demand, primarily from businesses, within the changing society. When establishing evaluation standards, it is important to create an image of society in the twenty-first century and to base decisions on the image of what kinds of people will be required within that image. The reactivation of education

means the introduction of competition. If the evaluation standards that determine the rules of competition and the evaluation system itself are not established properly, sound competition will not result, and the reactivation of schools will become impossible. It is difficult to promote this concept without the establishment of an assessment system that incorporates a variety of evaluative standards and the public release of evaluation results. Efforts should be made, not only in higher education but in elementary and secondary education as well, to establish a system to evaluate all the education activities of a school as a managerial entity, carry out self-inspection and self-evaluation, and release the results publicly.

Main issues for consideration:

1. **The evaluation of teachers.** From the viewpoint of those being evaluated, evaluation can be classified into that of teachers, of students, and of the education institutions. The evaluation of teachers in Japan traditionally has been carried out within their own circle of colleagues, but in the United States, for example, the evaluation of a student's scholastic evaluation becomes the standard for the evaluation of the quality and achievement of the teachers, as well as material for judgments to be passed when considering a teacher for promotion to the position of principal. As such, in Japan, it is necessary that teachers be evaluated on the basis of the performance of their students.
2. **The evaluation of students.** In Japan, a standardized curriculum using a standardized text book has prevailed for many years, and student evaluation could be carried out in each individual school. Meanwhile, in the United States, education has diversified; therefore, third-party testing institutions have appeared and currently are being employed to evaluate the academic ability of the children. In Japan, evaluation standards, which emphasize learning by rote memorization as found in the elementary, junior high, and high schools, the preliminary standard collage entrance examination for university and college institutions, and the secondary examination given by each university or college after an applicant has passed the preliminary examination, all are related by deviation values and have been the source of many problems. It is necessary to shift from a uniform system of evaluation standards that emphasizes learning by rote memorization to a system of evaluation standards that are characterized by variety and acknowledge individuality and creativity.

With an ever-increasing number of private universities and colleges turning to the preliminary standard collage entrance examination as the basis for their admissions programs, the number of college applicants who are taking the test has increased dramatically from the previously limited number of students applying to the national universities. The standard entrance examination, then, has the inherent possibility of changing from its present capacity as a college entrance examination to an examination that measures the learning achievements of a student through high school.

Unlike the United States and Great Britain, Japan does not have a system of evaluation that measures the ability of a student to perform in society, and Japanese students are evaluated only by deviation value until they reach college. It is necessary that students be evaluated not only on their ability to memorize facts but also on the basis of independence, creativity, and other attributes

needed in society at large. It therefore is important to examine whether such evaluations are possible within a singular examination system; if they are not, society must examine whether a multiple examination system can be introduced and implemented. To achieve this, however, it also will be necessary to alter the awareness of society at large.

At the present time, the most pressing need is to change the current evaluation system, which is characterized by emphasis on rote memorization and the volume of stored knowledge that the student amasses. Ultimately, the implementation of an evaluation system in the individual educational institutions in which the teachers acknowledge and give priority to the diversification of their students' abilities is a prerequisite to change in the overall system.

3. **The evaluation of education institutions.** In the United States, there are institutions to research methods of evaluation and companies to provide management consultation for education institutions. Such companies and institutions can subsist so long as the education institutions they serve have established proper management systems and can withstand evaluation as a managing entity. Education institutions in Japan, however, do not meet these preconditions.

In the United States, specialized organizations and various evaluation institutions carry out evaluations of universities and colleges irrespective of their placement in the public or private sectors. Japan has what is called the College Standards Association, but, unfortunately, the association does not function effectively and the evaluation of universities and colleges is comprised of a self-check system. The demand for third-party evaluations has begun to be heard, but there are no organizations yet that are capable of performing the task. Along with the revitalization of the College Standards Association, it is a priority to develop neutral, specialized organizations that will function as they do in the United States; for example, a medically related organization can make evaluations of medical colleges.

Education and Research and Development Activities in Universities.

Policy for reform: improving the quality of education and activating educational and research activities.

Higher education (that is, at the university and graduate school levels) will play a major role in the advancement of lifestyles and culture and in the activation of society and industry in the twenty-first century. Unfortunately, however, there are a great many problems in the education programs of Japan's universities, colleges, and graduate schools that need to be eliminated or solved. In particular, there is a demand for education and research conditions that, through the activation of educational and research activities, will meet the needs of a society characterized by diversification. Furthermore, the development of researchers and educators with an accurate sense of judgment and an active sense of originality, and of professionals with the technical knowledge and practical skills to enable them to lead the way for the society of the twenty-first century, is very important.

Main issues for consideration:

1. **The implementation of education to find and solve problems.** To achieve education reforms in Japan's universities and colleges, it first will be necessary

to strive to improve the quality of education to levels appropriate for the institutions. Traditional education attaches too much importance on knowledge, and allowing students to solve problems comprises a major part of that education. In the future, however, it will be desirable for students to be required to find and solve problems by themselves. It will be important to teach them the techniques and skills of problem-solving in order to achieve this goal, in addition to fundamental education, exemplified by the practical mastery of a foreign language and information literacy, debate and presentation training, and the maintenance of health and a healthy mind. Universities and colleges are not limited to merely the handing down of knowledge; the effort to reorganize that knowledge is important as well. Furthermore, Japanese education still awaits the acceptance of the challenge of establishing a new interdisciplinary subject without being limited to any of the subjects currently established, and that will surpass the separate realms of individual subjects.

2. **Education that fulfills the needs of society.** Demand is being placed on universities and colleges to provide educations that will meet the myriad needs of a diverse society. In general, with the rapid changes that are taking place in society, a number of traditional courses are starting to be transformed into courses of advanced liberal arts. For this reason, it is necessary to examine the possibilities for professional schools, which can function at a practical level in society. The business community should become more actively involved in college education through expansion of such employer systems that accommodate student internship programs or those that send employees to schools as volunteer instructors as a part of their philanthropic practice. Moreover, it also is necessary to consider an education system with such goals as the formation of character and the organization of curricula with an emphasis on education.
3. **The necessity of advanced research at universities.** Universities and colleges have a deep social responsibility to return the achievements of education and research to society. It therefore is imperative that the universities and colleges be engaged in the most advanced research and development projects possible, projects that actually are relative to society. A harmonious relationship among universities, industries, and government should be established, and advanced research projects should be developed cooperatively on the international stage. Furthermore, universities and colleges should function as centers of excellence on an international scale, and it is important that they establish themselves as research universities. In this respect, the presence and function of a technology licensing organization is indispensable to link the universities with society. Until recently, Japanese universities and colleges used their research as a cover, with a tendency to neglect education. In the future, however, a stance that will enable the reaffirmation of the importance of education and proper valuation will become essential, and the division of education and research will have to be made in accordance with that stance.
4. **Creating an education and research environment for the development of human resources.** One goal of education and research at universities for the future is to put an emphasis on students' individuality, creativity, independence, and internationalism, and to educate the highly qualified "gold-collar"

personnel who will lead society in the twenty-first century. The establishment and maintenance of an education and research environment that is conducive to the refinement of the natural talents and genius of students is an important subject for consideration. The education and research environment alluded to here does not mean necessarily the consolidation of library facilities or the creation of elaborate computer systems. Instead, what is referred to here is an overall environment that is indeed broad in scope, beginning with an entrance examination that emphasizes individuality, making use of a curriculum, method of teaching, class materials, and classrooms that develop creativity; and a campus that fosters independence and internationalism and provides for the proliferation of a financial support system that includes scholarships and grants. In consideration of such needs, Japan's universities and colleges are far below international levels.

5. **Contributions to lifelong education programs.** With the activation of society there has been an increasing demand for a lifelong educational system that will provide chances for education at any particular stage in one's life. Universities and colleges should play a major role in the establishment of such programs, but society itself needs to maintain a stance that will ensure their proper valuation and effective application. In this sense, it is important to consider concrete measures (for example, the utilization of education and research resources and the improvement of their convenience by operating 24-hour campuses, which allows access to libraries, computer rooms, and so on at all times) along with the new social and educational responsibilities of higher education.

The Development of Education Financing. *Policy for reform: increased financing for education through the diversification of funds.*

In responding to the needs of a developing, information-oriented, and international society, there is the growing need for diversification and individualism in Japanese education. In order to enable the expansion of education programs, however, it will become necessary to raise the funds to support these programs. Recently, poor funding has accounted for the failure of universities and colleges to meet the educational needs for diversification and advancement. To consolidate and develop the entire Japanese educational system for the twenty-first century, it is necessary to examine such problems as the payment of education expenses from family budgets, fiscal expenses for education, tax deductions, and the proliferation of scholarships, and to establish education institutions as management bodies through the promotion of such financial measures as diversification of their sources of funding to enable liberal, generous operation while introducing a system in which colleges determine the optimum use of the funds according to their managerial objectives.

Main issues for consideration:

1. **The increased public financing of education.** Japan can be noted for its low national expenditure on education. The share of government expenses for elementary and intermediate education relative to GNP is 4.1 percent in the United States, 3.3 percent in Great Britain, and 2.9 percent in Japan (as of 1992, according to data from the Ministry of Education). The share of population with higher education is only 0.6 percent in Japan, compared with 1.2

percent in the United States and 1.3 percent in Great Britain. Japan's fiscal expenditures for higher education are far below the average level for developed countries. Although expenditures for higher education were increasing slightly in accordance with the increase in the number of students, the recent worsening of Japan's economy has seen a decrease. In order to consolidate education in Japan further for the next century, efforts should be made to increase Japan's fiscal expenditures for education to a level comparable with other advanced industrialized countries (a little over 1 percent of GNP for higher education) and to distribute the funds with an emphasis especially on higher education. Subsidies should be granted in accordance with the roles that each university or college fulfills for research and education, instead of in accordance with the current standards based on whether the schools are publicly or privately established. In addition, a spirit of competition between schools should be introduced as well.

2. The expansion of the financial base through various sources of funds.

There have been cases in which institutions of higher learning proved unable to raise sufficient funds for education and research due to the difficult conditions of public financing. In particular, many private universities and colleges rely on payments (such as tuition) by the students for the greater part of their income, but the burden placed on family budgets by education has become too heavy, and the use of tuition to expand public funding has reached its practical limit. Meanwhile, in the United States, not only is financial support by the federal and state governments on the whole consolidated, but college incomes other than payments from students have diversified, with colleges receiving funds from such sources as private contributions, income through the promotion of joint projects between the industrial world and academic circles, and fees for the use of university property. In order for education institutions to achieve financial stability while maintaining the full array of the educational and research environment, it is important to carry out drastic revisions in the tax system to provide incentives for investing in education. In order to encourage contributions from the private sector, concrete measures should include such actions as the introduction of an education tax exemption comparable with the United States and its simplification of procedures, and the introduction of an income tax deduction system for tuition payments. On the other hand, it will be necessary to promote the publication of information about college finances in order to complete these financial measures.

3. Strengthening college financing through cooperative projects between the industrial world and academic circles.

In order to consolidate college finances, it is important to promote what is known as "cooperation between industry and the universities," in which the research facilities of the universities and colleges operate in conjunction with their counterparts in the industrial world. At the present time, it is difficult to say whether the cooperation between the industrial world and academic circles is active due to the weakness of the structure to promote such cooperation. Furthermore, the management structure that is to connect the universities and colleges with industry has yet to be established; thus, there is a great distance between the colleges of Japan and

of the United States, which has succeeded in establishing the results of research within the university as a business. In the United States, legislation was enacted in 1980 that grants universities and colleges the right to possess patents. Since that time, there has been an active shift in technology from the universities and colleges toward the industrial world. Japan, too, appreciates that legal systems and technology licensing organizations need to be established in order to promote cooperation between the industrial world and the universities and colleges, and that such measures will be taken in support of the diversification of college financing through industrializing research results of universities.

4. **The reinforcement and expansion of scholarships.** As is described above, the payment of education expenses from family budgets has reached its practical limit due to the jump in school expenses. In consideration of these conditions, it is desirable that equality in education be guaranteed; that the reorganization and expansion of the Japan Scholarship Foundation help reduce the payments for school expenses from family budgets and consolidate scholarships; and that a system for the provision of aid for interest payments of education loans taken from private enterprises be established.

Twenty-First Century Capitalism

The experience of the twentieth century proves that it is more effective and efficient to allow individuals to decide and achieve through their own efforts rather than through centralized state planning. The world has come to the end of ideologically driven economies.

Advances in science and technology, politics, and economics have liberated humanity from physical, organizational, geographical, and psychological restraints. With technology becoming ubiquitous, men and women are empowered to find quicker, more efficient, more pragmatic ways to achieve according to their self-interest. Most important, it is now recognized and accepted that people must be allowed to own and enjoy the fruits of their labor and ingenuity. The dawn of the age of information and globalization completes the transfer of power from institutions (including governments and nation-states) to individuals and their networks. This shift restructures the world that once was dominated by mainframes (government-to-government) to one driven by an interconnected network of individuals and networks. Geoeconomics thus moves center-stage and becomes the overriding consideration in global affairs, sidelining geopolitics.

The transcending economic consideration as civilization moves into the twenty-first century is the globalization of the world's economies in the direction of a single-market world. In the process, a rich paradox emerges: The global economy is of paramount importance, but no one knows how it works. This is the good news: If we don't know how it works, we can't fix it.

The great Austrian economist Friedrich Hayek, a Nobel Prize winner, called the global economy the "most complex structure in the universe"—inherently incomprehensible. With its trillions and trillions of variables, we may not know how it works, but we can know some things.

The global economy is self-organizing; the message for governments and societies is to dismantle any restraints remaining that could limit the expression of their citizens' potential.

This said, it must be pointed out that the global economy still is at a very primitive state, and that the participants, having come from varying degrees of statism and liberal traditions, are adjusting only slowly to the complex workings of global capitalism. Even in the center of modern capitalism, the United States, with the strongest economy in history, much work still is needed to refine the workings of free enterprise. The United States needs to continue to deregulate, reduce taxes, reduce welfare, and downsize government. Europe's high rate of unemployment is a result of the resistance to face the reality of the global economy. It is driven by a

set of stubborn attitudes that oppose incentives, penalize businesses, and protect labor. Great Britain's economy has bounced back because of the removal of many restrictions and the return of much of the power from the state to the private sector. The financial crisis in Asia that began in July 1997 can be looked on as the final call to governments to step aside in the economic realm; the burdensome structure of Japan's and South Korea's state-guided capitalism sends a timely message to China as it carries out the largest economic restructuring in its history.

There is increasing certainty that people can achieve peace and physical well-being from the democratic process, the rule of law, and the workings of the free market. Physical well-being—the access to adequate food, shelter, health care, and other comforts—derives from allowing individuals to seek a livelihood without undue interference from oppressive elites and has been achieved by millions in the world's developing economies. There is abundant evidence in the world today to demonstrate that freedom is on the rise. Freedom House, an international body that surveys the status of political rights and civil liberties, reported the highest number of free countries since the survey began in 1972. The *Index of Economic Freedom*, published jointly by the Heritage Foundation and the *Wall Street Journal*, confirms the correlation between economic freedom and prosperity: 72 of 150 countries were classified as free or mostly free in 1997, up from 65 the year before. Although it is conclusive that freedom is essential for economic prosperity, politicians in many countries still cling to the old perquisites of the nation-state, even at the expense of their citizens and the risk of lagging behind in the global economy. In tandem with the free market, however, governments must promote and develop the rule of law or face the consequences of “cowboy capitalism” or “gangster capitalism,” as seen in Russia and some of the newly marketized economies in Eastern Europe. In the newly developing economies in Asia, the great infusion of investment funds coming from the openness of the global system also have contributed to the formation of asset bubbles in which opportunities to utilize these funds productively were limited. The result is the destabilizing period of financial restructuring through which Asia has had to go as it enters the new century.

Governments, overwhelmed by the power of the market, are reluctant to accept the reality of their loss of control. All the evidence shows that the market is far more effective than the state in allocating resources and creating well-being for citizens. The free-market system therefore must continue to develop. Governments and citizens must trust the process and allow the global system to evolve without interference, playing to a set of rules observed by everyone. Markets are self-correcting and democratic. Bad economic policies soon are punished, and poorly performing companies are rejected by the market. There is nothing governments can do to control it or to change it, except to ensure that their economic house always is kept in attractive condition. Governments must embrace this new reality and redefine their new role as enforcers of law and defenders of security, ceasing to be active economic players—even in the realm of monetary policies.

It now is clear that those economies that practice the following attributes of twenty-first century capitalism will have the best chance for continued prosperity and well being:

- 1. Openness to the benefit of all.** Free trade and private direct investment, the free flow of information, and openness to immigration are key attributes of successful twenty-first century economic systems. High income does not mean much if the cost of living is equally high (such as in the case of Japan) because free trade is curbed. Such economies fail to result in a high standard of living for their citizens, defeating the very purpose of economic growth. Countries may boost high rates of saving, but the returns on these savings in a protected environment are miserable (as many Asians have experienced). It is clear by now that an open system works best for a country and its people, ensuring the most efficient allocation of resources and maximizing returns on investments, be it for their current consumption or retirement, or the further accumulation of capital for development purposes. The fact that the stock markets in the United States remain robust illustrates the workings of the open system—money chasing after value-generating stocks.

In a world in which competitiveness is decided by brain power, initiative, and entrepreneurial drive, openness to talent is the key to nurturing intellectual capital within a domestic economy. The United States has the most open attitude toward immigration in the world. Every year, some 1 million people enter the United States as legal immigrants. Who are these people? For the most part, they are skilled, talented, and entrepreneurial. People want to be where they can make the most of their talents.

- 2. Money and talent go where they are treated well.** The guiding light for governments and businesses in the twenty-first century is “money and talent will go to places where they are best treated and appreciated,” to add to the words of former Citibank chief executive officer Walter Wriston, who said that “money goes to where it is wanted and stays where it is well treated.” Trade and investment are the driving forces of continuous economic prosperity. In the global economy, driven by information and knowledge, in which intellectual capital is the bedrock of the creation of wealth, talent will go—and stay in—places in which opportunities can be maximized and quests for achievement fulfilled.
- 3. Emerging markets will drive growth.** In all but 1 of the past 34 years, the world’s developing economies have grown faster than developed economies. Developed countries (with the exception of the United States) now are several years into their weakest performance in a generation; it looks increasingly likely that their annual output of goods and services will be overtaken in five or six years by developing countries in this tremendous shift in global economic power.

The combined effects of the aging population and below-replacement-level birth rates will reduce the dynamism of developed economies. Europe’s present birth rate is only 1.4: If it does not rise and immigration policies do not change, Europe will have one-half the population it has today in just two generations.

- 4. Everyone can be a capitalist.** The traditional conflict between capital and labor will be resolved with the widespread adoption of the stock market as a wealth-sharing vehicle. Everyone can have a stake in the global economy by investing in good companies with good management teams. Employees,

customers, suppliers, management, and stockholders share a common destiny and interest in such an enterprise. It is a partnership in which each advances the other's interest by adding more value to the whole. Embracing this belief makes flexible markets, employability, performance-based management pay, maximizing shareholder value, and customer satisfaction a winning proposition for everyone. In capitalist United States, the mutual fund industry now is larger than the banking system—making the United States the first country to experience such an extraordinary shift in wealth creation.

5. Technological change fuels growth. Globalization is being driven by information technology. Simultaneously, telecommunications is creating a huge global economy and making the parts—individuals—more powerful. Global trade in information technology products now stands at about \$500 billion a year, and will soon rocket to \$1 trillion, possibly by the year 2000. Information technology is redefining how products and services are created and how business is done. Twenty years ago, there were almost no telecommuters; today, there are about 20 million worldwide; and some 200 million people are expected to become telecommuters by 2016. The power of the microchip doubles every 18 months, and new discoveries and innovations will continue to produce faster, cheaper computers. The combined effects of telecommunication technologies, entrepreneurship, and deregulation are creating a new reality in which “all calls are local.”

6. Job mobility. Countries with rigid labor policies—that is to say, all of Europe—are experiencing difficulty in adjusting to an open, competitive global labor market in which supply is abundant and wage rates are driven down through competition with new entrants. For software engineers, it used to be the Indians in Bangalore who were giving their Western counterparts a run for their money. Very soon, the Africans, Filipinos, and Chinese may be eating the Indians' lunch.

Contrary to what most people believe, more jobs are lost to technology than trade. Multinationals may downsize in the domestic market, but they create even fewer jobs in new markets. The labor content in manufacturing is going down, down, and down (from 25 percent of all manufactured goods in 1970 to 4 percent today). The trend is somewhat parallel with the historic decline in the numbers of people employed in agriculture. Education and training—always desirable socially—must become each country's number one economic priority.

7. An era of entrepreneurship. The ability of the United States to create new jobs and new industries is due to its dynamic entrepreneurial talent. In the past 6 years, the U.S. economy created 15 million new jobs. Europe, on the other hand, has lost 2 million jobs in the past 12 years. In addition to such factors as lower taxes, ease of startup, and an egalitarian and pro-enterprise climate, a vibrant stock market in the United States serves as the prime reward for risk-taking and entrepreneurship. In a supportive entrepreneurial environment, failures are tolerated; people are encouraged to “try, try again” if they do not succeed the first time; and success is celebrated with recognition and financial rewards. In this respect, Hong Kong is a great model for twenty-first century

capitalism. Some conditions in Hong Kong are even more favorable than in the United States. One of these conditions is a very low rate of taxation. It is not the government's responsibility to create robustness in the economy; it is the job of entrepreneurs. Government efforts at increasing spending to stimulate the economy almost always prove futile. What works is to improve incentives further: more freedom of action, lower taxes and tax incentives, eliminating corruption, and improving infrastructure—all of which make it easier for private businesses to become more competitive.

8. **The rich are getting richer, and almost everyone is doing better.** Inequalities will remain, but on balance everyone benefits from the expansion of the global economy. The vigorous, innovative U.S. economy is the most unequal of all industrial countries in terms of wealth and income. When the rich grow richer, there are greater incentives to invest back into enterprise; hence, the economy improves, thereby creating more jobs that help those in the lower rungs of society to move up. No country has achieved social justice through the redistribution of wealth, as the sorry experience of communism and central planning has shown. What remains sacred in the free-market system is equal access to opportunity; meritocracy must not be compromised. The issue with regard to poverty is to ensure access to opportunity by creating sustainable growth. When there is freedom, very talented individuals will do much better than others—and some of the rich will get richer. But there is freedom for everyone to do better. The way to cure poverty worldwide is well-known by now: by expanding economic opportunities, not by giving handouts.
9. **World-class standards, worldwide low prices.** Because world-class products are or will become available everywhere locally at the most competitive pricing, local products must be of world-class quality and be available at low prices. In the modern era, quality can be replicated anywhere. What distinguishes competitiveness is innovation and swiftness to market.
10. **Increases in trade.** Growth in global trade is faster than growth in output. Foreign investment by private companies has become the most powerful engine of growth in the world.

World economic output in the mid-1990s grew at an average rate of 3.7 percent annually. Trade increased by more than 8 percent a year during that time. Trade among industrialized countries and developing countries grew even faster—at more than 11 percent annually. A striking feature is the scale of intra-group trade: Companies trading with their own subsidiaries and affiliates account for 40 percent of world trade in industrial goods. The 40,000 parent companies with their 250,000 affiliates throughout the world account for an estimated one-third of world trade, according to a UN study. Trade takes place not among states but among—and within—companies.

11. **Transparency and corruption.** An open system is a competitive system. Capital and talent have choices. The world now has 200 nation-states, and thousands of companies are listed for public trading worldwide. Transparency of administration and management—both of governments and companies—is an important prerequisite for the serious international investor who make long-term commitments investing in businesses and economies. The world has not

been paying very serious attention to the issue of corruption until recently, when the World Bank began to make it an important consideration in the dispensation of loans. Even among Western states, only one-third of the 27 member-governments in the OECD forbid outright domestic tax deductions for foreign bribes paid by their companies. (Such countries include the United States, Canada, Great Britain, and Japan.) The OECD recently began the process of requiring all countries to forbid tax deductions for foreign bribes. Ethical standards and trust will become more widespread in a world made transparent by telecommunication technologies and mobility.

12. **Government: hands off commerce.** Government's picking winners is a strategy that has outlived its time. Privatization simply should not shift from public monopolies to private monopolies; privatization and competition should be linked. Countries would do well to invite the best players from the world to provide the most efficient and competitive services. Protection of industries naturally led to inefficiencies and "crony capitalism." Competition is the best safeguard for innovation and efficiency. Furthermore, the complexity of the global economy increases the risk and the failure of state-directed or -guided industrial policy; government knowledge simply is insufficient to cope with the incomprehensible complexity of the global marketplace.
13. **All politics will be global.** The globalization of financial markets, environmental concerns, the drive for transparency, and the need for job creation have enlarged the context for domestic politics, putting an end to the idea that "all politics is local." National governments that seek the support of international investors must listen and adjust their policies to make conditions attractive to foreign investment. National competitiveness alone is insufficient to draw in the funds and retain talent. National attractiveness, fiscal policies, transparency, openness, cost of living, infrastructure, and the vibrancy of arts and culture become more important than labor cost. Accountability of government will receive further pressure from the globalization of the media and the Internet. Protectionism and globalization will become the main axes of polarization, making racial and regional issues irrelevant in this age of the global market. To protect an electorate concerned with jobs and economic well-being, politicians today have very few choices remaining, one of which is between globalization and protectionism—a choice between allowing the free market to pick the winners or leaving it to the intrusive, heavy hand of the state.
14. **GDP is irrelevant.** Gross domestic product (GDP), as a measure of economic output, is not only universally inaccurate but increasingly irrelevant. Who actually cares about the GDP of, say, Texas or Arizona in the United States or of Akita or Aichi in Japan, which is unknowable anyway? People care about whether there are high-paying jobs provided by progressive and competitive companies in their community. Companies and individuals will relocate to places with the most attractive tax benefits and economic freedom, thereby loosening the bond of nationality and diffusing patriotism. National interest is best served when the individual's or corporation's self-interest is maximized. Investment analysts care less about sovereign risks and more about the competitiveness of companies and how well they are positioned for sustainable

growth. Notice that attention now is moving from the competitiveness of regions or countries (which are integrating rapidly) to the competitiveness of companies (which, with the right intellectual capital and global reach, can be more secure).

15. Networks are replacing the economic importance of nation-states. The overseas Chinese network is the third-largest economy in the world. Because of the revolution in telecommunications, networks have become tremendously more important. The economic activity of the non-resident Indian network is greater than that of India itself. To ethnic networks add business networks (for example, automobiles and fashion) and then add what is going to be the mother of all networks, the Internet. All of these networks are decentralized; no one is in charge.

Add companies as well. ABB is now a network of 1,300 companies. Visa, whose transactions last year exceeded an amazing \$1 trillion, is a network of thousands of local banks doing business in 14 million locations in every country in the world. It is a new kind of bigness. It is a new kind of competition/cooperation, too; local banks compete with one another locally and cooperate globally.

Networks are replacing the economic importance of nation-states, but not the cultural importance. The more countries become economically interdependent, the more they want to hold on to—and celebrate—their cultural identities. Contrary to what they believe, the more Japan integrates with the global economy, the more Japanese its people will become.

16. The importance of small and medium-sized companies. Indeed, the global economy is and will be dominated by small and medium-sized companies. Media all over the world focus on large, highly visible companies, which are easy targets (although, for example, the *Fortune* 500 in the United States—the 500 largest companies in the country—account for less than 10 percent of the U.S. economy). In this era of entrepreneurship, however, new, small, and middle-sized companies will be at the heart of twenty-first century capitalism.

The story of twenty-first century capitalism not only will be the story of 200 market economies marching toward one, single, global economy; it also will be the story of the triumph of the individual over the state.

Capitalism in the Twenty-First Century

Two Stages in the Development of Twenty-First Century Capitalism

What directions will capitalism take in the twenty-first century? Any discussion of this question must divide the projected course of twenty-first century capitalism into at least two distinct stages of development.

The first stage features the flowering of mega-competition, in which global, free competition invigorates and energizes the world economy. Such large countries as Russia, China, and India will advance toward becoming market economies and will converge with their Western counterparts. Japan and Europe rapidly will

become integrated into the framework of Anglo-Saxon mega-competition; consequently, a much larger number of countries will become involved in direct competition in global markets.

Dramatic advances in information technologies will provide the technological underpinnings for the advance of mega-competition and the global integration of markets. Major reductions in the cost of information will provide the impetus for expanding markets, from local to global ones. This process—which actually started around 1980—will accelerate significantly in the twenty-first century. Through this process, regional economies, which are boxed into local markets by high information and transportation costs, will become integrated into global markets. This will usher in the “age of mega-competition,” a development that will take place in the early years of the twenty-first century.

Not long after the advent of global markets and full-fledged mega-competition, it is quite likely that capitalism will be forced to undergo major changes and modifications. This constitutes the second stage of development in the twenty-first century. Modifications will be required because of the instability engendered by mega-competition and the global integration of markets. Factors contributing to greater instability include growing oligopoly in world markets, polarization between the winners and losers in global competition, and a marked tendency toward concentration in knowledge-based industries.

As seen in the Asian currency crisis, the globalization of capital markets gives added latitude to the mad rush of speculative funds. This phenomenon has a major negative impact on the real economies of affected countries. Such incidences will increase in the future and will destabilize the capitalist system. Furthermore, because economic globalization will bring peoples of vastly different cultures and values to participate in a single market, the moral and ethical foundations of capitalism may be brought into question. Growing instability will necessitate special consideration for issues of international distribution and the establishment of codes of corporate conduct to allow capitalism to continue to function properly. Global environmental problems will become increasingly serious, the resolution of which will require a coordination and adjustment of conflicting North–South interests and technological breakthroughs.

There is no doubt that full-fledged mega-competition will exacerbate inequalities, and that it will spawn problems in the capital markets. Likewise, there will be an urgent need for international “coordination and adjustment” to cope with environmental concerns and the ethical foundations of capitalism. The second stage in the development of twenty-first century capitalism will be characterized by this need for “coordination and adjustment.”

Growing Polarization. Let us consider the polarization and subsequent destabilization of the world economy that can be expected to follow the advent of mega-competition in the early parts of the next century. The trend toward polarization already can be seen clearly in the emergence of a single winner in the information industry (the so-called Wintel coalition that makes Microsoft’s Windows operating system operating on Intel’s processors ubiquitous among the world’s computers) that resulted from the establishment of a *de facto* standard; or in the large-scale mergers of financial institutions in the United States.

Oligopoly and polarization, however, will not exceed certain limits in conventional twentieth century industries. Thus, it is unimaginable that General Motors or Toyota will come to monopolize the global automobile market; instead, oligopoly and the emergence of a single winner will be the hallmarks of twenty-first century knowledge-based industries. Physical production is subject to the law of diminishing returns, while knowledge-based production is propelled by strong forces of increasing returns. In the world of physical production, producers are seen as “fighting over resources”; by contrast, in the world of knowledge-based production, there is no “fighting over knowledge.” The acquisition of knowledge by one party does not preclude the acquisition of the same knowledge by others. Moreover, the advance of knowledge facilitates the acquisition of new knowledge. In other words, there is a high probability that a pioneer in the creation of new knowledge will be able to enjoy a semi-permanent advantage. The traditional key phrase in economics has been the “scarcity of resources.” But in the world of knowledge-based production, the new key phrase will be “increasing returns.” The universalization of the forces of “increasing returns” will promote polarization and the emergence of single winners. As a result, inequalities will grow, and the world capitalist system will become increasingly unstable.

The United States Is Enjoying “Increasing Returns.” Compared with Japan’s economic stagnation, the U.S. economy has remained buoyant throughout the 1990s. Regarding the causes and sustainability of this growth, some argue that the U.S. economy has experienced a fundamental transformation (the “new economy” argument). An important difference between the U.S. and Japanese economies is that information industries and content-based industries account for a larger percentage of the U.S. economy. By contrast, Japan remains fixated on physical production, a field of economic activity in which the forces of increasing returns are weak. Thus, the U.S. economy, with its emphasis on knowledge-based industries and information- and content-based economic activities, is in a far better position than Japan’s to take full advantage of the forces of increasing returns in the process of economic globalization.

One of the factors in the success of the U.S. economy in recent years is that the United States has come to enjoy a comparative advantage in certain industrial areas in which the forces of increasing returns are the strongest. Subsequently, the United States has been able to capitalize on the forces of increasing returns to and to reap their full benefit.

Recent mergers among leading U.S. financial institutions point in the direction of a fundamental reorganization of the industry. The financial sector actually is a classic example of a knowledge-based industry. Financial markets are being globalized following the worldwide trend toward deregulation; this means that the benefits of increasing returns are becoming more accessible. The birth of giant banks and securities companies may be viewed as a response to these emerging opportunities. Nevertheless, at this point, there is no guarantee that these giant financial institutions will be able to register stellar performances because the potential for increasing returns in financial markets may be canceled out by the forces of diminishing returns inherent in large organizations.

If this analysis is correct in ascribing the full benefits of increasing returns to the U.S. economy, conditions will rise in which the United States will be able to maintain its global economic and political leadership throughout the foreseeable portions of the twenty-first century.

The Instability of International Financial Markets. The currency crisis in Asia symbolizes the instability inherent in the Anglo-Saxon type of globalized financial markets. This instability will pose an increasingly serious problem in the new century. Speculative foreign exchange transactions and trading in futures and derivatives may be viewed as the natural product of capitalist development; however, in the 1990s, such speculative transactions have come to command immense power over global financial markets. Certainly, trading in futures for the purpose of hedging underlying risks is an essential requirement for the proper functioning of a capitalist system insofar as these hedging instruments complement real transactions. When these instruments begin to exert a negative influence on real transactions, however, they no longer represent a desirable trend in the sound development of a capitalist economy.

In reality, speculative transactions have gained a life of their own. They have continued to grow larger and to exert a strong impact on the real economy. As such, they have introduced various distortions into the world economy. Fundamentally, the currency crisis in Asia is a reflection of the structural problems indigenous to the affected countries. It cannot be denied, however, that the crisis was exacerbated by the concentration of huge volumes of speculative funds on specific markets. The sound development of capitalist systems in the twenty-first century will be predicated on the introduction of some forms of restrictions on futures transactions and related regulatory policies. The problem of market instability cannot be solved unless some limits are placed on the internal dynamics of capital.

The Ethical Foundations of Capitalism. Another very important requirement is to establish an ethical framework with which to support the global capitalist system. The purpose of corporate activity in a capitalist system is defined to be the pursuit of profit. This does not imply, however, that corporations can adopt any method they choose to maximize profits; instead, corporate methods must conform to certain social and ethical rules and principles. In the age of mega-competition, worldwide competition will bring people of vastly different cultures, values, and languages to a common competitive arena. If a majority of these people attempt to profit by cheating and deceiving others, capitalism no doubt will fail to advance. Francis Fukuyama argues that the most fundamental requirement in building a framework for market transactions is the existence of mutual trust. Over the long term, this mutual trust will be undermined and destroyed if market participants try to make a killing by hiding unfavorable information, or by taking advantage of the ignorance of their counterparts, or by resorting to practices that do not contradict the letter of the law but are unethical nevertheless.

The market economy is supported not only by a legal infrastructure but also by the ethical values shared by its participants. Of course, a good legal code is indispensable. Considering the complexity and diversity of transactions being carried out, however, it is impractical and impossible to depend solely on the written law.

As such, it is important to create a system in which the public-mindedness of corporate and individual market participants will compensate and make up for “market failures.” This will be of vital importance in the twenty-first century, in which the scope of national sovereignty will become significantly restricted. In such an environment, the ethical and moral stature of individual market participants is likely to play the most important role in propelling the continued development of capitalism.

The Growing Seriousness of Global Environmental Problems. What will happen if developing countries maintain their high pace of economic growth in the years ahead? Even assuming that the advanced economies do not increase their consumption of energy from present levels, and that developing countries are able to achieve the same level of energy efficiency as the advanced countries, the world still would have to increase its total energy consumption by several times to sustain the growth of the developing countries. Under this scenario, global environmental problems would be very likely to become much worse than they are now. Indeed, global environmental problems will prove intractable in the absence of major technological breakthroughs in the areas of environmental protection and energy production, such as solar power generation.

Faced with increasingly serious energy and environmental problems, the advanced countries will lean even more sharply in the direction of an energy-conserving cyber-world economy. On the other hand, developing countries will continue to pursue resource-consuming conventional industries for the time being. Because of the gap in these strategies, environmental issues will be characterized by North–South conflicts that pit developing countries against the advanced economies. The United States and Japan must provide leadership in defusing this growing North–South confrontation.

International Coordinating Functions Must Be Strengthened. Various new systems and methods will be devised to overcome these internal contradictions of Anglo-Saxon capitalism. For example, the non-market activities of NGOs and nonprofit organizations—which transcend the framework of nation-states—will be expanded greatly. As another example, in response to global environmental problems, stricter restrictions are likely to be placed on polluting activities, and the arena of human activity is likely to shift away from resource-consuming real world activities to resource-conserving cyber-world pursuits.

In the final analysis, twenty-first century capitalism will witness the emergence of intense competition among advanced states in the creation of new knowledge. At the same time, North–South conflicts will become more intense because of the tug-of-war over the distribution of the fruits of these advances. The establishment of ethical standards will become even more important than today they are today, as will the importance of international coordination and adjustment in matters related to income distribution and environmental problems. Ultimately, the process of coordination and adjustment may give rise to new ideologies that call for a transition from a system based on competition to one based on cooperation and harmonization.

Hopefully, the United States and Japan will play an active role in such developments of the coming century. The realization of this hope will depend to a significant degree on their willingness to become involved in the process of international coordination and adjustment with the aim of achieving such objectives as buttressing the democratic political systems supporting capitalism, the establishment of ethical codes and standards, the building of new systemic frameworks for ameliorating the threats of instability, and the resolution of environmental problems.

Statement on Rebuilding Japan's Economy

Members of the U.S.–Japan 21st Century Committee have considered the continuing crisis in East Asian economies and, in particular, the plans for carefully restoring Japan's economy to stable prosperity. As the world's second-largest economy—and the largest economy by far in East Asia—Japan is in a position to help the entire region. The actions Japan may take toward that end are the same as those that would serve its own interests most directly in putting it back on the path of stable, moderate, and steady growth.

Japan already has taken steps in the right direction. It has provided more emergency loan assets to other Asian countries in support of IMF programs than any other country. Reductions in tax rates have been announced, and fiscal spending programs have been increased. Law enforcement authorities continue to investigate improper relationships between government officials and the institutions they regulate. A few financial institutions have been closed or reorganized, taking into account of their financial insolvency. Other institutions continue to receive financial support, although there is little evidence that their financial situations have been dealt with in a substantial way yet.

Some observers argue that the gradual resolution of financial problem is preferable. Shocks and panics thus can be avoided, employment can be maintained, and bad loan assets gradually can be reduced in value or written off. In normal times, these methods may be adequate for correcting isolated problems, but, unfortunately, they do not restore confidence when fears of financial panic are as widespread as they are now.

The first objective must be to restore confidence. That confidence depends on the judgment of ordinary depositors and investors that their assets are safe. Under present circumstances, confidence can be restored most quickly by liquidating shaky assets promptly. Banks, investment companies, and insurance companies should not be shored up with injections of government assets if they are not financially sound. There are various estimates that banks alone have non-performing assets of about 75 trillion yen. In fact, many of these loans may be collectable in part. Whatever the facts are, revealing the actual situation will be the best course to follow.

There are three areas in which further action should be pursued. The process already has begun; now it must be completed.

- Permanent tax reform must be enacted with lower maximum marginal rates on both personal income and business profits. Incentives to work efficiently,

and to save and invest wisely, are strong only when the gains from such socially desirable activity is taxed only moderately.

- Financial institutions must be examined with the view to confirming the fundamental soundness of the majority and reorganizing the rest at true market values. This one action would do more than anything else to restore confidence. Continuing to pump money into failing institutions only prolongs uncertainty and wastes resources and skills that should be employed more productively.
- The process of deregulation has been ongoing in Japan for some time, but more remains to be done. At the same time, regulation to promote transparency and conformity to international standards is necessary. Business and personal financial decisions should be generally free of regulation, but decision-makers also must be equipped with full and accurate information on which to base their choices.