Human Development through Innovation, a new Japanese Success

Hamilton C Shields

Waseda University, Graduate School

from U.S.A.

Abstract

Japan succeeded; it developed rapidly through wars and global recessions, and made its people one some of the wealthiest in the world. And yet, there is a widespread discontent, a pervasive sense of lacking of direction, and a lack of clarity about Japan's greater role in the world. The Japanese were promised that if they sacrificed everything for developing it would be worth it, but it is now clear that arriving at modernity requires living in modernity, a very different kind of challenge.

From my experience as an American, and from the successes and failures of my own country, I will propose answers to the questions of why Japan should exist and how it can pursue new goals, as starting points for Japan to form its own authentic responses. I believe as economic development inspired Japan in the past, pursuing human development in Japan and around the world will inspire the Japanese nation to greatness. I believe that a society pursuing human development will be innovative, meaning it provides economically for its people while improving the human condition around the world. Finally, I believe that human development pursued through innovation is a viable option for Japan if efforts to change are focused on the bottlenecks in Japanese society that entrench systematic disincentives to change. Only by seeing economic growth as the means to the greater goal of human development can it be achieved in a meaningful way.

First, the pursuit of human dignity will give Japan an important and influential role in the historical progress of the human race. As an outsider looking into Japan, it is all I can do to point out the tremendous potential I see in Japan to contribute to the greatest problems facing humanity

today. Japan's culture and capability give it a unique perspective on how to solve the problems that capitalism inflicts on the world.

At the frontier of invented technology, Japan has to invent the productivity increasing technologies that create economic growth and pursue the goal of human development. Japan must innovate. Fostering innovation is a difficult and unpredictable process, quite the opposite of industrial development which requires careful planning, strategic capital allocation, and structured investment. Innovation has three requirements: creativity, capital, creative destruction (displacement). All three of these inputs require the promotion of human development across the labor side of the economy.

A humanized capitalism, a human development centered capitalism, is where Japan can truly lead the world, by showing how the displacement essential for innovation can be carefully and responsibly managed. Japan's cultural focus on equality, harmony, and close relationships within communities has the potential to broaden the centers of human development in an innovation driven economy.

Finally, ideas without action are fantasies. Japanese society is a highly structured one; a short-term strategy can jump-start change by targeting the bottlenecks to innovation in the short-term will jump start change. Bottlenecks to change are those institutions, events, and beliefs in Japan that disincentivize human development oriented innovation.

This is the kind of social change that will require the coordinated effort of leaders across society. Leaders will have to ask themselves and their peers, do the groups we lead promote human development for group members and society as a whole? That must be the new yardstick for Japanese leaders. Does your company, school, or NPO measure up? If it does, you are the future of Japan.

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"Liminal - relating to a transitional or initial stage of a process (...) occupying a position at, or on both sides of, a boundary or threshold." - **Oxford English Dictionary**

"Questioning the nature and implications of liminal instances necessarily involves failure, if only in the specifically technical sense of entering spaces where prevailing criteria of success scarcely apply." - **Brian Ferneyhough**

Introduction

Japan succeeded; it developed rapidly through wars and global recessions, and made its people one some of the wealthiest in the world. And yet, there is a widespread discontent, a pervasive sense of lacking of direction, and a lack of clarity about Japan's greater role in the world. The Japanese were promised that if they sacrificed everything for developing it would be worth it, but it is now clear that arriving at modernity requires living in modernity, a very different kind of challenge

Japan is now at a liminal moment; the mere possibility of such a state is especially powerful in a nation where major social changes have historically been revolutionary and rapid. The anticipation and anxiety that accompany the realization of liminality are obvious: once backroom political conflicts spilling out into the public sphere, increasingly contentious relations between conservative and liberal elements in society, vocal skepticism of the status quo, and growing economic problems that threaten to undermine the base of Japanese prosperity.

The vision and values that guided Japan for the last 60 years no longer inspire, the economic system that brought Japan success now bring stagnation, and even the first simple steps to change seem overwhelming and impossible coordinate. This luminal moment is the time to be asking big, world changing questions about Japan's future. First, why does Japan exist? This deceptively simple question cuts to the core of the problem: why should the people of Japan contribute their time, money, and spirit to their nation? Second, how will Japan achieve its new purpose? And finally, what are the practical next steps to bringing about major changes?

From my experience as an American, and from the successes and failures of my own country, I will propose answers to these questions as starting points for Japan to form its own, authentic responses. I believe, as economic development inspired Japan in the past, pursuing human development in Japan and around the world will inspire the Japanese nation to greatness. I believe that a society pursuing human development will be innovative, meaning it provides economically for its people while improving the human condition around the world. Finally, I believe that human development pursued through innovation is a viable option for Japan if efforts

to change are focused on the bottlenecks in Japanese society that entrench systematic disincentives to change. Only by seeing economic growth as the means to the greater goal of human development can it be achieved in a meaningful way.

Question 1: Why does Japan exist?

In first half of the 20th century, Japan existed to establish itself as an equal in military and economic power to the West. In the second half, Japan existed to catch up to the West with economic development. What about in the 21st century?

Economic growth is no longer an adequate reason for Japan's existence. In the post-WWII period economic growth stood for more than just making money. Economic growth meant relieving poverty across Japan, improving the Japanese quality of life to that of the West, and inspiring a country away from the ideals that lead to war to pursuits that have lead to unprecedented peace.

My country's experience is a warning that continuing to pursue economic growth for the sake of wealth, after having developed, is more than just uninspiring, it's dangerous. The recent global financial crisis was brought about by those pursuing money for its own sake with no thoughts of responsibility for the long-term impacts of their actions. As a result, the fiscal gains of 70 years of economic growth in the United States were wiped out. The savings of millions of people were destroyed, ruining the lives of those reliant on their pensions. Millions more lost their jobs, causing immeasurable hardship and psychological damage to the unemployed and their families. Although it is temptingly easy to proclaim that Japanese businesses must focus on returning to the incredible profits of the mythologized 1980s, this would be a morally and economically ruinous pursuit.

Outside of habitual calls for economic growth, the absence of political, economic, and cultural vision is having increasingly unnerving consequences. Japan's national debt is skyrocketing, threatening a dual financial and unemployment crisis. Industries are moving to countries with cheaper labor. Culture is turning to crass commercialism. Japan is struggling to maintain international influence in the face of assertive rising Asian neighbors. Many Japanese are out of work, countless more are struggling to find meaning and satisfaction in their lives, and a vast majority are wondering if all the sacrifice for economic development was worth it in the end (interestingly evidenced by the near endless TV shows nostalgically looking back on the Showa period). The existential discontent in Japan is palpable, sadly symbolized by the tragically high suicide rate.

Problems abound outside of Japan as well. The world is becoming ever more broadly and

deeply capitalist. Capitalism, though, is amoral, literally inhuman. It has brought many wonderful things to the world's people, and Japan is a testament to that. But, capitalism has left many behind economically and spiritually. Billions around the world are deeply impoverished, suffering from disease, war, and displacement. The developed world is adrift in confusion in its impotence in the face of such intractable problems; the pursuit of ever greater economic gains seems to be the only agreed upon reason for existence.

For the sake of its own people, and the world, at this liminal Japan must reorient itself to a greater goal. It must put economic development in its place as a tool to achieve the historically and geographically universal ideal of human development.

What do I mean by human development? Simply put, developing the dignity of all human life. This is a worthy pursuit, but how can it be further imagined? Maslow's hierarchy of needs provides a rough illustration of what human development means. Maslow argues that humans have a pyramid of needs, each level impossible without those below it. At the foundation are physiological and physical wellbeing (food, water, procreation, safety, economic resources, personal property); achieving these for the Japanese people was greatest success of economic development as the post war vision for Japan.

The vision of human development focuses on the higher level needs: love and belonging, esteem, and self-actualization. Love and belonging means having loving relationships with one's family, friends, and community; esteem centers means having self-esteem, confidence, respect, achievement, and a meaningful role in groups; and at the peak self-actualization means the expression of morality, creativity, problem solving, a lack of prejudice and acceptance of reality.

Japan has worked hard to provide its people with a safe and secure country to live in, and now it is time for it to provide a country that allows them the joy of the highest expression of human vitality, both at home and abroad. The Japanese people, conscious of having successfully developed and conscious of newfound responsibility as world leaders, are ready and eager to pursue globally important aims in their own unique way. Imagine a world where Japanese workers are producing products that relieve poverty and enable creativity on a large scale; where Japanese banks are financing innovations that preserve the environment and provide meaningful work for those previously stuck in factories; and where Japanese thinkers lead developing countries through the process transitioning from self-centered economic development to global task of human development.

Human development is a broadly defined concept, and I think it is critical for the Japanese to ask questions about what human development means in the context of Japan and how that can be shared globally. This is not a new task, however, and a few important Japanese thinkers have

already hinted about how such questions can be framed and asked.

In his 1899 text explaining Bushido to his American colleagues, Bushido, the Soul of Japan, Inazo Nitobe explained that one important aspect of the Bushido moral code, benevolence, encompassed "the feeling of distress, love, magnanimity, affection for others, sympathy and pity, which were ever recognized to be supreme virtues, the highest of all the attributes of the human soul." These values are both at the center of Japanese culture and of promoting the development of human dignity. Nitobe saw the greatest strengths of his Japan as the things that united Japanese and Western cultures, despite their differences on the surface.

Modern Japanese authors have also focused on improving the human condition. The most globally recognized is Nobel Prize winner Kenzaburo Oe who was empathetic to the wide variety of challenges that faced people both inside and outside of Japan. He told the New York Times after winning the prize in 1996, that his task was "writing about the dignity of human beings." He too, in struggling to define modern Japanese values in the face of capitalism, saw the human dignity at the core of Japanese morality and able to unite the Japanese with other cultures.

In this way, the pursuit of human dignity will give Japan an important and influential role in the historical progress of the human race. As an outsider looking into Japan, it is all I can do to point out the tremendous potential I see in Japan to contribute to the greatest problems facing humanity today. Japan's culture and capability give it a unique perspective on how to solve the problems that capitalism inflicts on the world. If the Japanese could ask themselves seriously only one question, I would ask for it to be "how can we contribute to the human development of the world?" Motivated by that spirit, great changes could be made in Japanese society, just as when Japan was motivated by other urgent and historically imperative ideals in the Meiji and post-war periods.

Big Question 2: How can Japan pursue human development?

A society that pursues human development to the utmost will be starkly different from a society that pursues economic development. Fortunately, though, the economic organization of a society pursuing human development converges with the economic organization needed by developed countries for growth at the technology frontier. Advanced societies create economic growth through innovation, and innovation requires far more from the workforce than low value added manufacturing. It requires individuals that are creative, flexible, collaborative, and motivated, the very same values at the top of Maslow's hierarchy of needs, the very same values at the core of human development.

Human development occurs on both the labor side and the consumption side of economic

production. The symmetrical effects of developing workers and promoting human development via consumption gives hope that capitalist economic growth can be tamed, humanized, and become a means to goals far greater than wealth.

Japan's two economically sluggish decades can be analyzed from a number of angles, but the fundamental economic problem is that Japan reached the technology frontier but has yet to adapt by shifting from an industrially centered mindset to an innovation centered mindset. According to legendary economic growth expert Joseph Schumpeter, economic growth comes either from increases in productivity (the value created per worker per hour), or increases in the number of workers. For developing countries, productivity can be easily increased by importing productivity increasing technologies from more developed countries and leveraging low labor costs to compete globally. Their work force can also be easily increased by changing cultural norms or by pulling in informal and marginalized workers (ie women or agriculture workers) into the primary workforce.

Developed countries face a very different challenge. At the frontier of invented technology they have to invent the productivity increasing technologies that create economic growth. Whereas developing countries must absorb productivity increasing technologies and train their workforce to the point where they can use them, developed countries must invest new technologies, they must innovate.

Fostering innovation is a difficult and unpredictable process, quite the opposite of industrial development, which requires careful planning, strategic capital allocation, and structured investment. Economic growth at the technology frontier, however, requires innovation. Innovation has three requirements: creativity, capital, creative destruction (displacement). All three of these inputs require the promotion of human development across the labor side of the economy.

Creativity, Schumpeter's wild spirits, is the first pillar of sustainable economic growth. There are three key elements to creativity and the entrepreneurial spirit: initiative, rationality and empathy. Initiative is taking personal responsibility for solving a problem, for taking the risk to bring new ideas into the world in the form of innovative products.

Rationality means seeing the world as it is, identifying the problems that face consumers, societies, and the world without prejudice or bias. Only with a critical view can problems be identified and solved. In this sense, rationality can be a disruptive and unpleasant process; most prefer not to rock the boat in their home, their company, or their culture by identifying big, intractable problems. Instead, most uncritically resort to easy answers and bromides.

Empathy is sensitivity to the human condition and understanding of the problems that face people from their own perspective. A rational viewpoint can critically identify problems, but only

with empathy can those problems be solved in a way that is meaningful to consumers. This is especially important in a global marketplace when the ability to understand consumers around the world is the key to world changing innovation.

These three values can be seen at work in the most innovative part of my own country: Silicon Valley. In particular, Apple Computers enshrines each of these. Apple takes initiative by taking the risk to bring new ideas to the market long before anyone else (personal computing, eliminating the floppy drive, online music sales). They are ruthlessly rational, especially with regard to their own product line. They kill and undermine their old products before competitors do, rationally assessing the direction of the market (the iPhone killed the iPod, the MacBook Air killed the Mac Book, and so on). Finally, they are deeply empathetic. Due to the user centered design, using an Apple product is an emotional experience. Macs become more than tools, they are a joy to use.

A workplace that fosters creativity does more than create shareholder value through innovation; it improves the lives of its workers in substantial ways. Looking back at Maslow's hierarchy, a creativity focused workplace supports the range of high level pursuits that humans crave. Creativity promotes individual expression but also creates meaningful roles in groups. Meaningful is the keyword here. A factory worker on a simple production line does not have a meaningful role for most in an advanced society. The actions are repeated rote, years of education wasted, and there are few opportunities to deeply stimulate the mind to work. In creative tasks, however, the mind is fully engaged and the role, the participation with coworkers, becomes more deeply meaningful. Those are jobs that must be made.

A creative workplace fosters problem solving skills and the optimistic acceptance of reality (the attitude that important problems exist and can be solved). Products that are more than simple tools have a moral component as well. A new product that saves lives, a technology that humanizes capitalism, a new design that brings beauty into the world, all of these give labor a moral dimension.

Creating workplaces and companies where workers feel that their work has meaning, where their ideas can solve problems and where their contributions are respected and recognized will go a long towards solving issues of talent flight from Japan. Young people now fall somewhere on a scale from those who want stability to those who want to do meaningful work. And right now, Japanese companies are much more focused on stability than on meaningful work. If you were young and driven to make the world a better place, would you stick around?

The second pillar of creating innovation, according to Schumpeter, is capital investment in new technologies. Such investments scale creative concepts into globally viable products. In the

20th century, Japan was successful at organizing the capital necessary to develop major industries. Now the capital allocation process needs to adapt to the realities of the technology frontier in order to foster innovation and subsequently human development.

In an industrializing economy, returns are simple to calculate: if you invest in a factory, you know whether or not the price per unit will be competitive, about how long the factory will produce for. The best strategy is to minimize risk and invest capital broadly in infrastructure development that satisfies pre-existing demand. Capital investments need to be made to import technologies that increase worker productivity.

In an innovation driven mature economy the best strategy is different. First, investment needs to be targeted to ideas that have the possibility, but not guarantee, of changing the world. If investment strategies focus only on market tested products, Japan will be stuck in a losing battle of price competition with developing countries. Instead, it must risk capital on major new technologies. Schumpeter argues that such investments allow for temporary monopolies before price-competing countries can catch up. This allows for massive returns in the short and mid-term that diminish rapidly in the long-term. Japanese capital allocation must follow a venture capital strategy that best takes advantage of this reality.

Reorienting investment to support innovation instead of industrial development will further the goals of human development in important ways. First, it rewards creativity. This is distinctly difference from rewarding performance alone, which is an entirely monetary transaction (you generated more money for our company so we will pay you a percentage of that). Instead, it rewards acts of initiative, rationality and empathy in their early stages, which will incentivizes entrepreneurs to take risks

Secondly, innovation focused funding is critical for scaling innovations from minor technologies used by a few devoted followers to products and services that improve lives across the world. With the money and experience banks possess, world improving innovations will stay in the garage. Google has improved access to information around the world; it needed capital to get out of the garage. Dedicated hippies have pursued green technologies since the 1960s, but it took capital to monetize those ideas and create environment saving (and profit producing) products. Innovative medical technologies have saved countless lives, innovative communication technologies deepens our relationships with friends and cultures around the world, and innovation in educational technology has brought laptops to children in poverty around the world. In a human development focused economy, investment shifts from being a profit maximizing exercise to a benefit maximizing exercise. The banks and investors willing to take on this strategy stand to make substantial profits while supporting technologies that substantially improve the life

of mankind. Would you rather be rich or make a difference? Or better yet, would you like to not have to choose?

The US has meaningful lessons for Japan on how to foster creativity and mobilize capital to create economy-growing innovations. But, the US's experience carries many warnings as well. Innovation leads to creative destruction, the death of the obsolete in favor of the new. This creates social displacement; destroyed jobs are recreated in different sectors of the economy leaving workers out to dry. This leads to the disgusting income inequality in the United States. So far, Japan has erred on the side of caution, preferring to limit creative destruction in the post-bubble period for fear of displacement. Bad loans have been kept on the books, unproductive employees have been kept in the company, and underperforming products have kept being made to prevent displacement. Is this a justified fear?

Firstly, ignoring the positive impacts of displacement and creative destruction will eventually undermine the Japanese economy completely. One look at the recent struggles of Greece, Ireland, and Italy combined with a brief glance at Japan's enormous government deficit should be sufficient to scare one into action. Disruption is a must for innovation and economic growth, but must suffering and inequity follow?

A humanized capitalism, a human development centered capitalism must answer no. This is where Japan can truly lead the world, by showing how the displacement essential for innovation can be carefully and responsibly managed. Japan's cultural focus on equality, harmony, and close relationships within communities has the potential to broaden the centers of human development in an innovation driven economy. I can imagine companies coordinating to retrain and transfer workers, the government funding education to shift workers to needed sectors of the economy, and companies being reward with prestige for creating meaningful jobs in their community.

Just as Japanese consumers have supported environmental improvements by paying a premium for green technologies, they will without a doubt pay a premium for innovative products that support human development for those displaced by technological progress. Instead of a "Buy Eco" campaign, there could be "Buy Actualizing" campaigns that support the development of respect, achievement, creativity, morality, and problem solving for workers.

In a capitalist world, consumption is a vote. It is a vote for the policies of the company that made the product and the country that backs that company. Japanese companies have the opportunity to use their innovations to make the purchase of a Japanese product a clear vote for human development. Japan must ask how it can foster creativity and efficiently allocate capital in a way minimizes the downsides of creative destruction. Japan must ask how it can humanize capitalism through innovation.

Question 3: What are the practical next steps to bringing about major changes?

Ideas without action are fantasies. Having asked the big questions, it is time focus on equally important practical questions: what should be done first? Japanese society is a highly structured one; a short-term strategy can jump-start change by targeting the bottlenecks to innovation in the short-term will jump start change. Bottlenecks to change are those institutions, events, and beliefs in Japan that disincentivize human development oriented innovation.

It is important here to distinguish between the incentive structure of a society and the characteristics of its people. Many in Japan, and I am speaking of Japanese commentators, can be heard arguing that the Japanese people are not rational, that the Japanese are risk adverse, that the Japanese will not act as individuals, that the Japanese are not creative, that the Japanese people do not care about the rest of the world. In short, those who resist change argue that the Japanese are not innovative.

I could not disagree more. If it is at all true, it is a recent disease. To cite only one example among many, Sakamoto Ryoma shows that the stereotypical image of the Japanese is far from true. He was an innovator, he believed in the development of the Japanese people, and it took enormously creative risks to advance his ideals. Sakamoto Ryoama's recent re-popularization in pop culture speaks of a strong desire for Japanese who long for a better society to change to their country, their culture, and their world.

In fact, those who promote a passive view of the Japanese do so because it benefits their position in society. Proponents of that view rose to the top of Japanese society and now, just as an American CEO would sacrifice his workers to benefit his wealth, some leaders in companies, NPOs, government ministries, and political parties are promoting a version of the Japanese as docile and obedient that secures their position in society. With their position in mind and little thought to the future of Japan, they maintain the bottlenecks that disincentive innovation that would threaten the comfort and respect they now enjoy.

Thinking of the current economic stagnation in terms of incentives, rather than the result of a culture, is a powerful tool for understanding how to make substantial social change a reality. Facing new incentives, I believe the Japanese people will surpass all expectation in pursuing innovation and ultimately global human development.

The first job for Japan, then, is to open the bottlenecks that disincentiveize creativity, effective capital allocation, and disruption. I will suggest bottlenecks that create disincentives for each part of the innovative process. Using these as starting points, I hope to inspire questions about what more can be done.

First, looking at the incentives facing Japanese students, it is no wonder that they do not grow up to be creative, risk taking workers. Only by simultaneously addressing the two main bottlenecks in a student's life, college entrance examinations and job hunting, can there be hope for developing an innovation oriented workforce.

Japanese education and hiring is stuck an industrial model: educate workers to show up on time (school bells!), do what they are told (obey!), work with precision (pass the tests!), don't interrupt work flow (work quietly!), and get along with coworkers (be a good kohai!) If I were a factory owner, this would be great. Japan, though, is losing factories fast and now needs innovators.

Unfortunately, as it stands now, initiative, critical rationality, and leadership are not only disincentivized, they are punished. The first 18 years of a Japanese student's life is focused on the single bottleneck of the college entrance exam, which makes it an attractive target for change. If the top 20 schools in Japan declared they wanted students who could take initiative, who could analyze arguments and think critically about problems, and who could understand their fellow man in empathetic ways, imagine the changes that would cascade through the educational system.

First, prestigious cram schools would change their curriculums, teaching the analytical and leadership skills needed to demonstrate critical reasoning and the ability to take initiative. Private schools would soon follow suit, with public schools shortly after. Parents would change how they raise their children: instead of closing and focusing their child's student' mind on exam material, they would open to their minds to develop their human potential.

The second bottleneck occurs in college with job hunting. Currently students looking for work are taught to show conformity by dressing identically, trained in their university club activities to be good kohai, and present themselves to companies as eager blank slates, ready to absorb and imitate company policy as commanded. What a waste of higher education!

Company entrance exams must give students incentives to develop the innovation focused skill set they need in employees to drive growth. This means hiring students who have shown exceptional leadership abilities, hiring students who have excellent analytical thinking skills demonstrated both in company interviews and in their college studies, and hiring students who have demonstrated a willingness to take risks in order to accomplish their goals. If Japanese young people go into universities knowing that they need to develop these skills to get the prestigious job they long for, I am sure they will apply themselves in remarkable ways.

If I could implore Japan to copy only two things from the United States, it would be these two. The top universities in the world are in the United States, and they attract the best lifelong achievers by testing for initiative, analytical thinking skills, and creativity. Likewise, some of the

most innovative companies in the world (and by far the most successful in technological innovation) are located in the US They test potential employees for an innovation focused skill set. As a result, American young people, and young people from around the world who aspire to these universities and companies, spend their school years doing more than memorize: they learn the skills that will make them innovators.

In Japan these bottlenecks are controlled by a small cadre of university administrators and corporate leaders. If the top 20 schools and companies publically change their policies in the pursuit of not only innovation, but the higher goal of refocusing society on human development, I do not see how they could fail in creating significant change.

Next, capital investment strategies in Japan present two bottlenecks, the first of which is a preference for low risk/consistent return, centrally control by large banks and/or government offices (ie MITI).

Opening the first bottleneck will be difficult because of the widespread preference for centrally planned capital allocation to known business entities based on long-term plans. Because of the unpredictable nature of innovation, having MITI or banks central to business groups dictate investment strategies will slow investment to the point where it cannot be focused on rapidly growing technologies. Failure to provide fast moving, successful young companies with capital will send them abroad or result in them becoming obsolete before they can scale. Capital allocation must be quick, despite the risks.

The second bottleneck is the lack of lending to small or new businesses. Without reliable sources of capital early in the process of business development, would be entrepreneurs have little incentive to unleash their entrepreneurial spirit. Banks must be able to put aside their 10 and 20 year plans, and look for new partners in unexpected places if they do not want all their investments to be on the losing end of price competition with an ever wider array of capable developing countries.

Even more importantly in this regard, the Japanese bureaucracy must stop its shockingly wasteful investments in worthless infrastructure development. If the trillions of yen spent pouring concrete across the countryside were spent on fostering innovation and supporting those displaced by new technologies, Japan would be a far more economically successful country. The development mindset must from big infrastructure projects to investments in innovation. Politicians and bureaucrats, however, are well taken care of by the people who benefit from the debt inflating largess of the Japanese government. Business leaders will have to use their power and influence to end this shameful drain on Japanese wealth and productivity.

Finally, eliminating barriers to creative destruction, eliminating bottlenecks to

displacement, is the most challenging task ahead for Japan. Japan is not a poor country, so many are well off enough to resist any changes that might disrupt their way of life in the short-term.

The first way to eliminate disincentives to displacement is by encouraging mid-career hiring. Fostering a labor market that is not predicated on lifetime employment will make displacement far less painful to employees. Currently, if a company downsizes or closes, there are few attractive options for displaced employees. If companies reoriented their hiring to include a mix of recent graduates and mid-career personnel, it would eliminate the greatest disincentive to innovative risk taking in Japan today. Moreover, companies who hire more mid-career workers will increase their innovative capability by integrating new skills and ideas into their workforce without waiting for years of training and employee development.

The second bottleneck is the social perception of failure resulting from risk taking or the creative destruction of innovation. In Japan your place in society is determined by your position in the group you belong to. This means that changing companies and starting again at the bottom of the seniority ladder robs you of most of your social standing and losing your job removes you from society all together. With those incentives, keeping your job is by far much more important than creating value, innovating, and taking risk.

This bottleneck will require leaders in society to return the role of groups to their rightful place. Groups do not exist for their own sake, but in order to enable individuals to pursue mutual goals cooperatively. In feudal Japan, the group structure promoted stability and cooperation between different levels of society. In post-war Japan, company centered groups ensured the pursuit of economic development. Groups now need to be reoriented to pursue a higher goal, as they always have been at the best parts of Japanese history.

Group membership should be evaluated on how it helps the members pursue human development both in their own lives and in the world. If a job enriches my life and produces life improving products, I should be held in high esteem for belonging to the right group. But, if my job makes my life miserable and I make products that bring harm to society, I should not be respected as my work. At that point, the work would be about nothing more than money and society should encourage me to either take initiative to improve the group I belong to, or encourage me to find a group that better enables me to enrich my life and the life of those around.

Conclusion

This is the kind of social change that will require the coordinated effort of leaders across society. Leaders will have to ask themselves and their peers, do the groups we lead promote human development for group members and society as a whole? That must be the new yardstick

for Japanese leaders. Does your company, school, or NPO measure up? If it does, you are the future of Japan.