

Japan's Twenty-First Century Settlement

Keith Rankin, 25 June 2015

To see a future that works for the time being – sort of – look to Japan.

While my main focus here is the Japanese settlement relating to public finance, I will first address some social matters. When in Japan last year with my family, we couldn't help noticing the numbers of young people wearing surgical masks for no apparent reason. And we also noticed the unusually high proportion of people in cafes and other eateries who were alone.

While there are all sorts of historical, cultural and public health reasons for wearing facemasks, they seem to have become a kind of fashion accessory (sometimes compared to sun-glasses in the west). Or perhaps better described as an 'anti-fashion' accessory that coincides with the rise of celibacy, with intimate relationships becoming too much of a hassle to too many Japanese. It also coincides with a significant increase, especially among the more affluent, of the use of pets as human-relationship substitutes (2012 BBC Radio documentary [It's a Dog's Life](#)).

Quoting from [Why do Japanese people wear surgical masks? It's not always for health reasons](#), *Japan Today*, 23 Feb 2014: "One 46-year-old mother, who herself wears a mask every day in the winter to prevent getting sick, says her high-school-age daughter wears one for a completely different reason. 'She puts on a mask and sticks headphones in her ears so that people won't bother her. It makes it harder for them to start talking to her'." A juvenile psychologist notes: "The trend of wearing a mask to prevent directly dealing with others may have roots in the current youth culture in which many of them are more accustomed to communicating indirectly through social media." In one blogsite (Quartz: qz.com) these propensities are called "social firewalls".

In the British *Observer* (20 Oct 2013), Abigail Haworth asked [Why have young people in Japan stopped having sex?](#) The rise of celibacy applies to both genders, and seems not to be a question of sexual orientation. It's more a case of social ennui. This was reiterated in the *Washington Post* ([Japan's sexual apathy is endangering the global economy](#)), with a substantial statistical analysis of why Japanese women and men aged 25-34 stay single. The reasons are similar for both genders.

The argument about Japan endangering the world economy on account of these demographic issues is taking the argument too far, however.

Japan is close to being the world's largest creditor economy, owning, for example, well over one trillion dollars of American debt (*Washington Post*, 10 Oct 2013, [This surprising chart shows which countries own the most U.S. debt](#)). Much of that is American Government debt.

More importantly, the Japanese people have lent the equivalent of more than ten trillion US dollars to their own government sector. This is the Japanese financial settlement. Japanese have developed a financial culture of lending to their governments in lieu of being taxed by them. And there are signs that rising government debt in other economically developed nations is an indication that Japanese practices are spreading.

When I was in Japan in April 2014, the month that their GST (indirect tax) was raised from 5% to 8%, I mainly saw an affluent and comparatively relaxed society. However the statistics show a substantial consumer resistance to spending as a result of this modest tax increase. The result of the ensuing recession was a smaller – not a larger – tax take following the rise in this tax rate. The message is that it's at least as difficult, politically, to raise taxes in Japan as it is in the USA.

So how does the Japanese financial settlement work? Japanese save in the full knowledge that they will only ever spend a small proportion of their savings. In effect, they lease their incomes to their national and local governments (and indeed to foreign governments), knowing that these governments must spend the otherwise unspent private incomes in order to maintain the equilibrium of affluence and relative equality

that's now well established. They get both the public benefit of the government spending and the private satisfaction of seeing the money spent by the governments still sitting as credits in their bank accounts.

The settlement works. The government spends the money on all sorts of projects (including large amounts on what we would dismiss as 'pork-barrelling') while the untaxed money is still available for private spending. And, so long as those private savings in the aggregate remain substantially unspent by the savers, the few who do wish to spend their savings are easily able to do so. It is tacitly understood that a 'run on the government' would have similar damaging consequences as a run on the banking system. So the run does not happen.

The funds advanced by Japanese households to their governments function not as a government obligation to repay households, but as a virtual tax. A key part of this settlement is the requirement that the government spends this *de facto* revenue, maintaining full employment and relative equality. Japan's public debt could be 500% of GDP rather than its current 230% (compare to 36% in New Zealand) and that would make no difference. Japan's government creditors – the citizens of Japan – know (tacitly) the disaster that they themselves would befall if there was any concerted effort to call in that public debt.

While there is no real issue of financial unsustainability, there is a growing issue of what Japanese governments can spend the money on; especially given the reticence in Asia to adopt western-style social welfare systems. It's workfare, Japanese style, rather than welfare. Indeed we can see a rise in military spending as a reflection of this need to find new projects for public largesse. Unfortunately, rises in military spending tend to come, eventually, with rises in militarism; and the militarist dynamic is prone to take over following global financial collapses.

I see much of this being replicated in the affluent west. The increased social ennui, the increased resistance to taxation, and the increased willingness to accept increased public debt in lieu of increased taxation. Essentially these are the unrecognised 'problems' of past economic success. In the west we have had fewer inhibitions towards paying cash benefits than have Asian countries; the west has developed a constructive welfare tradition.

With a welfare tradition in the west, letting citizens make more of their own choices about spending and leisure gives a chance for a sustainable, equitable and peaceful economic future. (Further, rising social ennui can be dissipated once we acknowledge that paid work is not the be-all and end-all of life and achievement.) It just requires us to accept that governments must have much more debt on their books – what we owe to ourselves – than has ever been seen as acceptable in the past.
