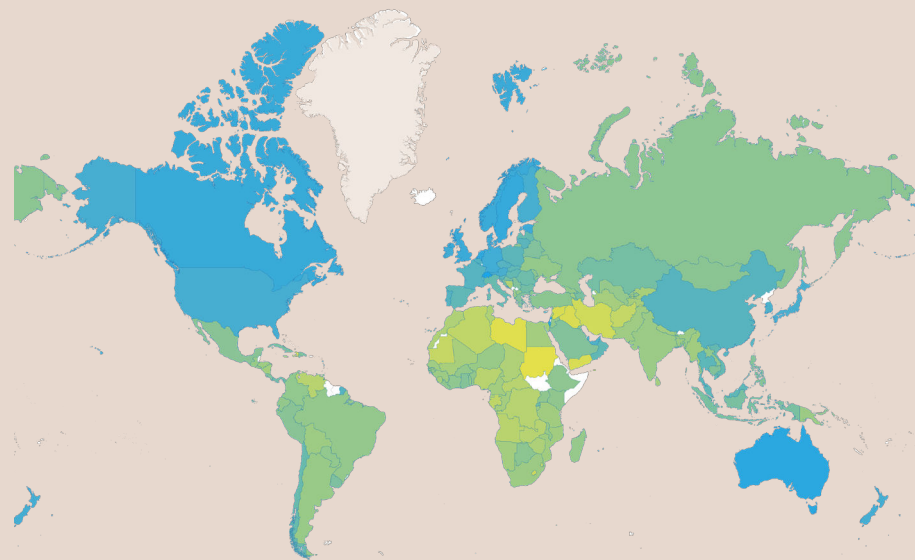


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ELITE QUALITY REPORT 2022

Japan: A highly civilized society with ineffective leadership

Professor Etsuro Shioji, Graduate School of Economics, Hitotsubashi University



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Japan: A highly civilized society with ineffective leadership

Japan has seen two prime ministers leave office in the last two years. During these pandemic times, the general public exercised an admirable level of self-restraint in their social behavior, resulting in relatively low rates of COVID-19 infection and death. Yet their leaders failed to respond effectively as they were either unable or unwilling to overcome resistance from various elite interest groups. For instance, instead of allocating sufficient hospital beds for COVID-19 patients, they opted to impose severe restrictions on economic activities to contain the virus. They were also slow to secure an adequate supply of the vaccine, despite the fact that the success of the Olympic Games, held in Tokyo in Summer 2021, was vital for the cabinet's very survival.

Japan's overall EQx2022 result (rank #18) is rather disappointing for the third largest economy in the world, and reflects the weaknesses of the country's elites. As the two Sub-Indices of Power (rank # 21) and Value (rank # 16) are in a similar range, let us move down to the level of the EQx Index Areas. Japan ranks highly in terms of Political Value (iii, rank # 5), driven by two pillars, Giving Income (iii.7, rank # 8) and Taking Income (iii.8, rank # 8). These rankings reflect generally good levels of health as indicated by *Life expectancy women* (LEW, iii.7, rank # 1) and *Life expectancy men* (LEM, iii.7, rank # 3), the aforementioned low incidence of COVID-19 as measured by *COVID-19 fatality rate, age-adjusted* (COF, iii.7, rank # 8), low *Homicide rates* (HOM, iii.8, rank # 2), and good standards of primary/secondary education (PISA mean score, PIS, iii.7, rank # 4). Yet even in these areas, credit does not go to the political elites of today, but rather to the strength of Japanese society in general.

Japan faces the demographic time bomb of a rapidly aging society and shrinking population. The challenge is multiplied by the presence of a large *Government debt as % of GDP* (DBT, iii.9, rank # 140), which is likely to pose a substantial burden on future generations and their Value Creation abilities. To overcome such difficulties and to remain competitive, the country needs to mobilize its biggest underutilized resource: female workers. However, the increase in female participation in the labor market has slowed during the COVID-19 years (*Labor force participation rate - male vs female*, LFR, iv.12, rank # 86). The country also struggles to allocate well-educated, highly trained women to where they could be most productive and create most value for society (*Prop. of women in senior and middle mgmt. positions*, WMA, i.3, rank # 101).

The country continues to excel in technology, as is illustrated by the *Number of patent applications per 100,000 people* (PAT, iv.10, rank # 1). However, business leaders fail to coordinate efforts by those experts to produce more Economic Value (iv, rank # 22). The government seems to be caught up in the past successes of traditional industrial policies as evidenced by *Share of discretionary government interventions as % of total interventions (stock)* (DGS, iv.10, rank # 144), rather than providing social infrastructure to promote *Entrepreneurship* (ENT, ii.6, rank # 22).

In conclusion, Japan continues to draw its strength from ordinary citizens who are well educated and highly disciplined, as well as dedicated specialists such as teachers and engineers. Political and business elites are urged to do their own part in fulfilling the country's potential.

Professor Etsuro Shioji,
Graduate School of Economics, Hitotsubashi University

Japan

EQx2022 Country Scorecard

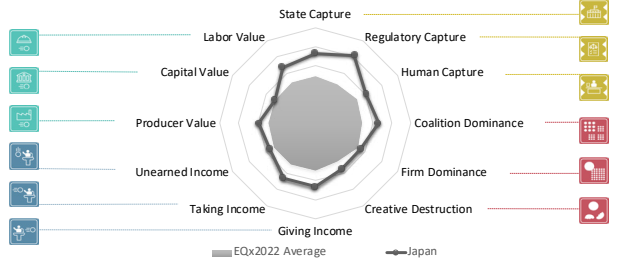
Population **126 million**
 GDP (nominal) **5'058 billion USD**
 GDP per capita **40'057 USD**



Level 1 - Index	EQx Rank / 151 18	EQx Score 61.2	High Quality Elites
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Level 2 - Sub-Indices & Index Areas	EQx Sub-Indices				EQx Index Areas							
	Power		Value		Political Power (i)		Economic Power (ii)		Political Value (iii)		Economic Value (iv)	
	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score
	21	62.9	16	60.4	14	73.4	23	57.6	5	63.1	22	59.0

Level 3 - Pillars	Rank / 151	Score
Political Power (i)		
State Capture	16	73.0
Regulatory Capture	5	82.3
Human Capture	36	61.8
Economic Power (ii)		
Coalition Dominance	6	66.5
Firm Dominance	51	54.7
Creative Destruction	37	55.5
Political Value (iii)		
Giving Income	8	66.1
Taking Income	8	66.5
Economic Value (iv)		
Unearned Income	46	54.6
Producer Value	28	59.2
Capital Value	63	49.0
Labor Value	18	67.9



Level 4 - EQx Indicators	Rank / 151	Score
State Capture (i.1)		
COR Political corruption	24	83.5
MOB Social mobility (upward)*	18	74.8
MOD Social mobility (downward)* (n)	13	85.9
PDE Political decentralization	1	100.0
ADE Administrative decentralization	36	66.5
PGL Political globalization	34	73.0
WPI Women's Power Index	119	27.3
RTC Government's responsiveness to change	29	68.0
EPR E-Participation Index	4	86.3
PFDP Press freedom	50	60.6
COC Control of corruption	16	91.6
OPG Open government (n)	20	75.0
NJK Nr. of journalists killed per 1 million people (2yrs avg.) (n)	1	58.2
REQ Regulatory quality (n)	15	84.5
CRO Crony capitalism	6	70.5
ECR Ease of challenging regulations	16	81.2
EDB Digital institutional quality	5	75.1
PRI Property rights	8	90.7
INO Informal output as a % of GDP (n)	4	94.4
CGP Constraints on government power (n)	23	73.5
REN Regulatory enforcement (n)	16	91.6
Regulatory Capture (i.2)		
GSI Global Slavery Index	1	74.9
WBL Women, business and the law	65	57.5
LIN LGBT+ inclusiveness	52	62.9
GRI Religion - Government Restriction Index	6	84.4
SHI Religion - Social Hostilities Index	8	80.8
WSB Women self made billionaires	10	59.8
HRI Human Rights Index	31	74.0
FDP Forcibly displaced population as % of population	2	56.2
AFI Academic Freedom Index	79	56.3
FLS Financial Literacy Score (n)	34	61.2
WMA Prop. of women in senior and middle mgmt. positions* (n)	101	6.9
Human Capture (i.3)		
IEE Top 3 industries exports as % of exports	59	48.5
ECI Economic Complexity Index	1	100.0
IVA Top 3 industries as % of VA	9	85.3
CON Construction as % of GDP*	22	55.3
MIL Military expenses as % of GDP*	102	50.8
UNI Unionization rate*	41	60.6
CBC Collective bargaining coverage	28	65.6
BSN Barriers in service & network sectors	10	72.3
PUE Public employees as a % of total employment (n)	32	68.3
CRA Criminal actors (n)	57	58.3
Coalition Dominance (ii.4)		
SME SMEs per 1,000 people	15	62.6
BIW Billionaires' wealth as % of GDP	99	54.3
FKG Top 10 firms market cap as % of GDP	49	52.8
FRG Top 3 firms revenues as % of GDP	52	55.6
FRR Top 30 firms revenues as % of GDP	51	48.4
TUL Listed firms turnover, long run 15 yrs	33	2.5
TUS Listed firms turnover, short run 3 yrs	32	0.0
ENT Entrepreneurship	22	76.4
VCK Venture capital finance	36	47.1
RND R&D as a % of GDP	5	89.5
EXR Firm exit ratio		
BCD Billionaire's creative destruction	17	61.2
IWE Index of Women Entrepreneurs	45	26.0
VCA Venture capital availability	15	84.8
GSE Governmental support to entrepreneurship	31	61.0

	Rank / 151	Score
Giving Income (iii.7)		
SNT Subsidies and transfers as % of expenses		
REG Regional redistribution as % of government budget	134	4.6
EDU School life expectancy	45	58.6
GPS Expenditure on general public services as % of GDP*	11	65.0
INT Internet access	15	79.4
NRI Network Readiness Index	16	85.9
LEW Life expectancy women	1	89.1
LEM Life expectancy men	3	86.8
FSQ Global Food Security Index - availability, quality & safety	5	88.3
COV COVID-19 excess deaths, age-adjusted	27	63.2
COF COVID-19 fatality rate, age-adjusted	8	64.4
COM COVID-19 mortality rate, age-adjusted	14	71.1
CLS COVID-19 lost schooldays		
VAX COVID-19 vaccination rate (n)	17	78.5
OSI Online Service Index	11	80.9
UNV Top universities (n)	33	52.8
PIS PISA mean scores (n)	4	80.3
GEX General government expenditure as % of GDP* (n)	84	49.0
Taking Income (iii.8)		
DCT Corporate tax rate*	96	43.9
HOM Homicide rate	2	97.4
INE Top 10% share of pre-tax national income	69	50.3
FDE Fiscal decentralization	10	79.4
DTR Tax revenue as % of GDP*		
BRD Battle-related deaths per 100,000 people	1	54.2
GCI Global Cybersecurity Index	12	78.1
SUI Suicide rate per 100,000 people	128	31.5
SUB Death rates from substance use per 100,000 people	9	88.6
DPS Delta public vs private sector salaries (n)		
GEG Gender education gap (n)	9	74.9
Unearned Income (iii.9)		
EPI Environmental Performance Index	11	94.1
DBT Government debt as % of GDP	140	0.0
NRR Natural resources rents as % of GDP (n)	13	81.9
CDO CO2 emissions (metric tons per capita) (n)	108	23.4
CRM Criminal markets (n)	29	73.9
Producer Value (iv.10)		
TRF Trade freedom	44	68.7
FDS FDI inflows as % of GDP, stock	147	40.1
BTF Barriers to FDI	29	62.1
EGL Economic globalization	49	63.7
HEI Health Efficiency Index	8	78.6
OFB Open for business	26	56.0
ESG ESG company scores	20	61.1
RDR R&D as % of revenue Top 10 firms	11	76.8
FSA Global Food Security Index - affordability	11	77.0
PAT Nr. of patent applications per 100,000 people	1	100.0
IPM % of imports targeted by protectionist measures (flow)	69	57.4
IPS % of imports targeted by protectionist measures (stock) (n)	22	67.4
DGI % of discr. gov't. interventions as % of total interv. (flow)	131	32.6
DGS % of discr. gov't. interventions as % of total interv. (stock) (n)	144	0.0
Capital Value (iv.11)		
DNI Neutral interest rate*	8	59.0
DOI Inflation*	61	54.5
GOL Gold demand as % of GDP	2	60.5
DMA M&A as % of investment - 3 yrs rolling avg.*	32	54.0
DKI Delta capital gains tax vs income tax	109	5.3
UNC Unicorns per 1 million people	20	48.0
BSG Billionaires self-made nr. per 1 million people	26	45.6
BSM Billionaires self-made as % of total billionaires	19	64.3
FMI Financial Markets Index		
UEM Unemployment rate	20	72.6
LFP Labor force participation rate	76	50.0
WLP Delta real wage vs labor productivity increases	10	59.2
YUN Youth unemployment rate	19	75.5
BRN Human flight and brain drain	25	78.6
LFM Labor force participation ratio - male vs female*	86	52.8

* Calculated as the deviation from a conceptual optimum
 (n) Refers to Indicators newly incorporated in the EQx2022