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PDF issue: 2024-12-31

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(出版者 / Publisher)
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(雑誌名 / Journal or Publication Title)
Journal of International Economic Studies

(巻 / Volume)
12

(開始ページ / Start Page)
1

(終了ページ / End Page)
22

(発行年 / Year)
1998-03

(URL)
https://doi.org/10.15002/00002137

Journal of International Economic Studies (1998), No.12, 1-22
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The Political Economy of the Safety Net

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1. Fundamental Changes in Economics and Objectives

(1) Methodological Problems

It is difficult for a person to escape from ideas which he has long studied and made a part of himself. Even when reality changes dramatically and it is felt that the presuppositions behind the framework of ones thought have certain problems, one continues to extend the earlier frame of reference to understand changes within that old framework. Scholars who think that theoretical continuity is important would consider that this is to be most natural. However, if this leads to the rejection of the basis of self analysis and the critical spirit, then the mismatch between reality and theory widens and "theoretical continuity" becomes a cause for theoretically bankruptcy. Therefore, to protect the intellectual balance, it is vital to always question and improve the effectiveness of an existing framework of thinking. In this essay we seek to analyse this issue and the essay opens with a discussion of the methodological problems underlying current theory.[1]

Let us consider the basic nature of the fundamental changes that economic society faces today. If the origins of this change are sought, then they will be found to lie in the loosening of confidence or belief in the system or rules which have governed the factors market in land, labour and capital (or money). Examples of this are manifold and can be seen in the movement in the exchange rate market and the release of latent instability in the international monetary system caused by financial deregulation which, in turn, created changes in investment instruments represented by land and stocks and the bursting of the "bubble" leading to debt deflation; the writing off of bad debts created on land and stocks and ad hoc public intervention in the financial market; labour relations or relations between companies that led to institutional friction internationally; in the developing world, the problem of excess population and in the developed world the problems of an ageing society. Further instances include the monetarist attack against welfare state which led to increased conflict between 'native' and immigrant society (this is symbolically represented by the rise in violence and movement of neo-fascism); in the developing world the problem of public debt and the instability of international finance; a rise in ethnic, tribal and religious rivalries due to the transferring of the market economy of the developed world without change to the developing and old socialist countries; the support of an international free trade regime and the problem of liberalisation of agricultural

products; environmental problems which transcend national boundaries; and the various problems which accompany these fundamental changes are all caused by the limits of the marketification of the factors market of land, labour and capital (or money).

However, in the standard texts, even the framework which could examine this problem is rejected right from the beginning. In economic texts currently in use, if the definition of "scarcity" is attached as a limit for the factors market, then it is assumed that for the rest, the market mechanism can distribute at optimum level. That is, in the factors market, even if the limit of "scarcity" is added, if there is perfect competition, that is the exchangeability of land and stocks as financial capital, or the exchangeability of land and capital in equipment and investments, and the exchange-ability of labour and capital, then through the market mechanism, with the Pareto optimum achieving balance it is possible to achieve the best distribution of resources. If such a framework is presupposed right from the beginning then it is not possible to confront the fundamental problems in the factors market. The policies of financial liberalisation formulated on the basis of neo-classical economics dramatically highlight the reality of this problem. Why did the policies of financial liberalisation in all the developed economies lead to speculation and bad debt and why does the problem of ad hoc public financial intervention repeat itself? Neo-classical economics can, at most, only explain the particular problem.

(2) Institutional Problems and the Approach of Economics

Certainly the standard neo-classical approach as found in the 1980's does not apply to such fundamental systemic problems. One, at the level of micro-economics where the information costs or transaction costs are included together within industry to explain the institution or rule formation, it is possible to demonstrate the popularity of information economics[2] or economics of transaction cost.[3] At the level of macro-economics from the 1970's, as shown by the work of J. R. Hicks[4] the "scarcity" in the factors of production was provisionally interpreted as central to the dynamic changes in the economy. This was a theory which sought to explain systemic changes in economics, by the method means of equating innovation with technological transformation (and on that basing investments) and the limits of market regulation (in this case labour) of the factors of production with a motive of innovation.

If we follow the former theory as there is a difference in the information available to those negotiating in the market, information cost or transaction cost arise, which means that in a certain sense there is a possibility that a "market failure" will occur everywhere. For instance, Coarse explains the formation of the firm from the economy of the transaction cost. First, the skill formation of workers has special characteristics of 'capital', and if there is asymmetry in the information between managers and workers then transaction cost will arise. If the supervision and administrative costs of taking skilled workers into the firm are lower than the transaction cost in the market, then the formation of the firm will take place. Information cost and transaction cost also apply to the merger or break-up of firms or to the formation of networks; attempts are also being made to explain the formation of the state or the administrative system.

In this approach, if a situation is created within the logic of game theory where it is presupposed that there is asymmetry in information and that the actors are profit

maximising persons, it is possible to introduce the idea, in part, of people basing their actions on the social contract. Here, while mutually influencing each other, it is possible to imagine people who seek to create the most effective strategy and, within neo-classical economics where explaining the formation of institutions was a problem, it now becomes possible to offer an explanation which is theoretically *internal* to its logic and which can be evaluated as an innovative approach.

However, in this approach also, there is a limit to the analyses of the problems of the institutional formation of the factors market and its structural change. Firstly, in the economics of transaction costs theoretically to link individualism to the formation of the firm, it is presupposed that it is always possible for the basic production unit to break away and become independent. For instance, Coarse argues that, for the worker (or the employee), skill formation has a special capital characteristic, but the presupposition underlying this implies either that this is due to shirking work or to opportunism. Next, in the market when goods are produced by skilled workers, there is asymmetry in information or uncertainty, moreover, contract negotiations has time and money costs, thus causing the transaction cost to arise. If this transaction cost, when there are skilled workers outside the firm, exceeds the costs of supervision and management, the negotiations would change into the firm. Or, to put it another way, market negotiations are selected. That is, it is through the medium of transaction costs or information costs that the market and firm become interchangeable.

Therefore, the hypothesis that the structure of an industry is built on production units that can be independent has a certain similar problem to that of the Cambridge capital aggregate controversy which criticised the possibility of capital aggregate (or, to put it another way, division)[5]. Skill as an "asset" for workers has a special characteristic, and the question whether production units can become independent is a separate problem. If there is one characteristic of mechanical production in a capitalist economy, it is, as Adam Smith noted, the desire to seek an increase in production through either division of labour or co-operative operation, and, as N. Kaldor emphasised, economies of scale in the formation of an industry. If that is so, the separation of a production process as a firm may be inefficient. In the economics of transaction cost, such a situation is seen merely as, post facto, reducing the possibilities of the measurement of skill or transaction cost. Finally, in the economics of transaction cost from a theoretical basis of individualism that seeks to regard skilled workers as equal negotiating partners, the "benefits of independence" are excessively stressed. However, if the management of independent units is difficult individually, then, from the point of workers, the real problem is the "fear of unemployment". It is for this reason that workers form unions and seek to protect their position. It is not possible to explain this when the employer is the main subject and economy of costs is the only motive.

Secondly, even if we ignore the fundamental problem of the possibilities of measuring transaction and information costs, in the economics of transaction costs the asymmetry of expression in both of these is ignored. This is clearly seen in the application of the economics of transaction cost to the problem of environmental destruction. That is, industry can show the costs of production in monetary terms, but it is very difficult to express the damage to human beings and the environment in monetary terms. Circumstance of damage to human beings or the environment are not so malleable as investment or disinvestment by industry in production facilities.

Following Coarse's argument, let us investigate the famous example of the right of a factory to discharge smoke. First, as Coarse's argument of the "social costs" shows in relation to the economics of transaction cost, externalities do not form the basis for government intervention. Because of this a priori assumption, the factory's right to discharge smoke cannot be restricted, nor can there be a reason to impose a tax, as argued by Pigou, or a subsidy. Essentially, the limits of the ownership of the means of production are determined by law, contract or rule and through this the right of how and to what extent the particular means of production can be used is determined. If these contractual arrangements determining this demarcation are traded on the market, then this right will be negotiated at a lower price, because the costs of the damage it will cause are also included. That is, if both the assailant and the sufferer negotiate the right to ownership including the costs of the damage, to minimise opportunity costs when investing in the means of production, the total value of the product will be maximised, and measures, such as the Pigou tax or subsidy, will lead to a loss in the most optimum distribution of resources.

However, in general equilibrium theory analysis, it is hypothesised that transaction costs for the contract or arrangement are zero. It is a type of frictionless society. Because of this, according to Coarse, the existence of transaction cost is the basis of to government intervention. The development of the above argument of transaction cost is the same as that mediated by "the theory of the interchangeability of firm and market transactions". In the example of the factory smoke, government intervention is justified, as the benefit obtained exceeds the survey costs of smoke sufferers, or the administrative costs to implement the policy for preventing damage. And, when the reverse is the case, then it is better for the government not to intervene. Certainly, the form of government intervention is not limited to a Pigou tax or subsidy, it also includes changes in the law and contract which demarcate the limits of the right to ownership.

Therefore, in this argument, the theoretical asymmetry implicit in the very form of expression of transaction and information costs has been ignored. For instance, let us take the following example. A factory finds it cheaper to build a higher chimney rather than to attach equipment to discharge the smoke. If this is done, then the number of sufferers from the smoke will increase, and, correspondingly, the costs of identifying each individual sufferer and the administrative costs for implementing measures will also increase. In such a situation, it is possible that the argument that the government should do nothing will come up. Certainly, of we use game theory, after identifying the sufferers and by repeating the justice game, it may be possible to determine the costs of the damage. Therefore, the damage compensation by the factory and the production costs can be stated in monetary terms, it is, however, difficult to monetise the human and environment costs and further damage will not be rectified.

Thirdly, whether with transaction cost or information cost, the economy of these costs (=efficiency) is based on the motive of maximising self-profit which cannot explain either the formation or role of intermediate groups. In general, regional groups, voluntary associations, educational and religious groups do not necessarily have as their objective the maximising of profit but rather have welfare functions such as redistribution or mutual reward. Even firms or labour unions where the main purpose is economic activity carry out redistributive functions or mutual aid

measures.

It is not possible to explain these functions from the economic activity of transaction costs of owners of wealth or assets. From the point of Home economicus, the existence of owners themselves trying to redistribute their earnings means that there is an efficient transfer because it is not possible to equate transaction cost (or information cost) with a profit maximising activity. In actuality, the welfare functions performed by these intermediate organisations do not substitute for market negotiations but rather substitute for public sector or community including family.

This problem arises even if the economics of transaction cost is applied to the state. According to D. North, the state economises on transaction cost: that is, it seeks to maximise profits on the principal (rulers or owners), and has the same character as an economic organisation[6)]. However, there are limits to explaining the formation of a state or changes in the system from transaction cost. As North himself recognises in actuality, people stop acting like free riders, but take group action for public justice based on moral and ethical principles to change the state or the system. From the hypothesis of an economic man seeking to maximise efficiency self-sacrifice in such group action is nothing but "irrationality". Therefore, to explain such action, North has to introduce another concept, that of "costs which support ideology". If the economics of transaction cost are provisionally applied to be applied to the history of the state or systemic changes, then theoretical consistency has to be abandoned.

If the problem of the formation of the welfare state is taken up, then this point becomes even more serious. The problem is that the formation of the welfare state occurs in and just after the period of great social change during the total war like World War I and II. It is true that if, as it has been done since Adam Smith, the modern state is understood as an organisation which specifies property rights and has a comparative advantage over violence so that it can protect private property, then, it may be possible to apply selectively the economics of transaction cost. However, in the case of the formation of the welfare state, this becomes difficult because the welfare state system makes the protection of the life of all its citizens a duty of the state and within this uniform framework, this system sacrifices the right of ownership of private owners. If that is so, then, will not the redistribution of private earnings and property from private owners to non-owners reduce transaction cost among private owners ? In the economics of transaction cost which is based on neo-classical economics, there is no answer to this criticism.

(3) Is the Institution Economically Neutral ?

In the latter argument, the factors market is different from the normal market for goods or services, as there is a limit to self-regulation, the costs and the time involved in regulation become important. In actuality, new investments in fixed capital equipment used for technological improvements are linked to the costs of the scrapping of existing capital equipment or of installing new capital equipment. Even this objection provides sufficient ground for the criticism of the timeless and uniform world of the neo-classical type of production function. However, in neo-classical economics, even if in the elements of investment we include "costs of regulating investments", the problem will be reduced to the time lag or the extent of scale of investment. The problem which really calls for an explanation is the formation of the institution or rule governing the factors market or its structural change.

To begin at the beginning because there is a limit to the marketification of the factors market, of land, labour and capital (money which is at the base of it), the working of the institutions or the formation of rules corresponds to this limit. It is precisely here in the division between the market and the non-market that the genesis of various economic systems lies. And, inevitably, the problem of whether the market is neutral in an economy or not arises. This problem takes us in two directions.

Firstly, if we accept that unless we hypothesise special institutions or rules the factors market cannot function in a stable manner, then the problem arises what are the conditions for trust or confidence in the institution or rule established in the factors market. Or put another way, the theoretical problem is what is the systemic conditions which will ensure structural stability in the factors market and what is the theory of community to ensure trust in the institutions ?

Secondly, the problem for comparative analysis is that the market structures of different countries cannot be understood from a single uniform model. Corresponding to the limits of the marketification of the factors of production in different countries, institutions or rules with special characteristics are formed because the institutions operating in the markets cannot be the same. To, therefore, analyse the structural changes in the world economy, it is necessary to have a framework which looks simultaneously at "the structural changes in the system" and at "an international comparison of the structure of institutions".

Let us examine how existing economic theory has studied the relationship between the market and the non-market in economics or the relationship between the individual right to decision making and the social public. Once again we need to reconsider the starting point of economic theory.

2. Public Goods and the Market Economy Model

(1) Theoretical Formation of Public Goods Theory

Where is the boundary between market and non-market sectors placed in the standard text of economics ? The reasons advanced vary with the school of economics, but they have a common answer. When ownership is in the private sector, then it is placed within the market sector, and when it is public, then in the non-market sector. That is, according to the dichotomy of private versus public, the boundary between market and non-market economic regions is drawn. Which sphere, government or some public body should take charge? If the presuppositions of neo-classical economics are followed, the market mechanism is the most efficient. The management of finance and services will always invite the "defeat of government", therefore, they should be left to the market. What then, is the reason for the existence of the state or the government ?

There is no argument , at the moment , from within the neo-classical framework. Neo-classical economics has very actively sought to theoretically exclude government and the public sphere and worked to create a pure market economy model. It is because of this that Milton Friedman argues that regulations for property rights, the currency system, national defence, the judicial system are all on the negative list and nothing more than a "necessary evil", which can only be considered as "given conditions" "outside" the theory. The various arguments based on a utilitarian tradition,

excluding arguments based on the social contract, do not have a theory from within which can explain the formation of a state and government. Therefore, the existence and role of the public sphere and the theory of public goods or external economies or dis-economies are grounded on "market failure". In radical neo-classical economics, the "failure of government" is stressed more than "market failure", which can never be the incompatibility with the theory of public goods.

As is known, the theory of public goods was developed by Samuelson, Buchanan and Musgrave[7]. According to this theory, firstly, goods and services, which have a non-exclusive or non-rival character, are public goods. As well known, non-exclusiveness means that they have the characteristic that people who do not pay for their use cannot be excluded from consuming them. Non-rivalness points to the characteristic that one consumers use does not decrease the consumption of another consumer. Namely, in the theory of public goods, the boundary between the market sector and the non-market sector is drawn on the basis of the real characteristic that the goods and services are endowed with. According to the workings of this argument, it is possible to totally exclude to the "outside" public goods supplied by the public sector and it is possible to complete a general equilibrium model of a market economy based only on private goods.

Secondly, to determine the most optimum level of the supply of public goods, the public goods which have been relegated to the "outside" of the market economy must, however, be once again included in the general equilibrium model. If one seeks to apply the general equilibrium model, even if for the moment the market mechanism is not presupposed, not only can an implicit price to the public goods (tax price) be determined but it is also possible to presuppose that on the same production-possibility curve private goods and public goods can be interchanged. In a market, according to the first rule, even for a public good which cannot be supplied, it is hypothesised that for autonomous individuals an utilitarian judgement in choice preference between public and private goods is possible along with a balance obtained between minimising cost and maximising utility. Certainly, public goods are not like private goods where individual buyers have the "freedom" to determine their purchases, but goods where, because they are supplied collectively, it is presumed that they are used in equal quantities. Because of this, choice occurs at the meeting point of private and public goods. Thus, among individuals the total of the marginal rate of substitution between private and public goods is the same as the marginal rate of transformation between private and public goods on the production-possibility curve and this becomes the most optimum supply of public goods and fulfils the Pareto efficiency criteria.

Thirdly, let us return to the starting point of our questioning of neo-classical economics. The application of "market principles" to public goods has been explained by analogy in actuality, however, the supply of public goods does not follow the market but is determined by the political process, supplied collectively and "equally consumed". It is not possible to know the demand curve of individuals for public goods unless there are Omniscient or omnipresent planners. People feel that it is possible that the tax price of public goods be minimised for their demand that does not occur in the case of private goods. The so-called free rider problem occurs. In this manner, the optimum level of supply reached "theoretically" can never be more than a supposition. Here it is necessary to analyse the voting process by which

public goods are chosen with obvious fastidiousness. Without a single peaked case, which forms individual 'rational choice', a ready explanation becomes impossible without falling into the Arrow "voting paradox"[8]. The result is that the general equilibrium model can "theoretically" explain the optimum supply level of public goods but the problem of whether it can be achieved within the political process in which individuals make a judgement on price is not explained, and the theory of public goods is "concluded".

(2) Tautology in the Theory of Public Goods

The theory of public goods as explained above is clearly divided. Firstly, it is presumed that public goods have a certain character and when the general equilibrium model is applied, there is a theoretical self-contradiction. From the very beginning public goods are determined on the basis of the nature of the goods and services; because these are goods with non-exclusiveness and non-rivalness, the market mechanism does not apply to their supply (or in the least they are not supplied optimally). In spite of this, when they seek to apply this model from neo-classical economics, contradictions arise when trying to obtain the optimum supply level of public goods.

As mentioned earlier, if the general equilibrium model is applied, for the present even if the market mechanism is not presumed, it is conjectured that it is possible to price public goods implicitly (here, tax price of public goods), and it is presumed that private and public goods are interchangeable on a production-possibility curve. A logical hypothesis is necessary for the presumption that it is possible to place an implicit price on public goods so that public and private goods can be judged interchangeably within the individual utility function. Therefore, in neo-classical economics outside the market mechanism there is no theoretical basis for the existence of a system within which an individual (and independently) can make an utilitarian judgement. It can only be said that following from this in the choosing, the market mechanism is used analogically without any explanation, that is making a rational choice between private and public goods. Therefore, if without the implicit presupposition of the market mechanism (independently formed between individuals) it is not possible to form an utilitarian judgement then obtaining an optimum level on the basis of the inter-changeability of private and public goods within the general equilibrium model, which will then contradict the first theoretical assumption that public goods cannot be efficiently (most optimum) supplied by the market because of the non-exclusiveness and non-rivalness. Well then regarding the goods which cannot be supplied by the market all that can be said is that utility function is applied analogically although presupposition of the market mechanism may not be "formed".

In "Customary economies" or "government-guided economies" whether it is customary morality or orders from above, the collective objectives are of greater importance than the pursuit of individual profit. At the least, the individual's ability to make "independent" utilitarian judgements was formed historically along with market economies. However, even after the establishment of capitalism the market mechanism certainly did not rule over all of society. Nothing points to this more than the very existence of government and of a community. Within economic society, many intermediate groups continued to exist and even within an enterprise which was, if anything, at the heart of the market economy, utilitarian judgement or individualistic behaviour, was seen as "obstructive" in the institutional context. As team

production became universalized this trend could not be ignored. While, on the one hand, you have market negotiations, and, on the other, non-market "exchange", the logical assumption that autonomous individuals can make utilitarian judgements was never established in reality even for the market mechanism prevailed all over the society.

In actuality, it is doubtful whether an individual can chose between two commodities, one with price and supply is determined by the market and the other where the good is non-exclusionary (or, alternatively, a service where the market cannot determine the supply and price), in a stable and "rational" manner. Let us consider this in more concrete fashion. Under the datum for income levels, even if we hypothesise that it is possible to determine the preferential order of individuals choosing between increasing their clothing expense or their expenditure on culture and leisure, it is doubtful whether the individual can independently and logically calculate and choose the increase or decrease of goods supplied on a group or community basis, such as national defence or police expenditure, by comparing goods and services supplied by the market, such as clothing or leisure expenditure. In this manner, if we see the argument for public goods as an "axiomatic" proof, then it is merely "established" itself on a distinctly fragile supposition.

Perhaps, if we move away from distinguishing 'public goods' from private goods on the basis of their character, the hypothesis that "public goods" can be substituted for private goods may be seen to be in consonance with the "theory" of the neo-classical equilibrium model. However, this creates a difficult theoretical problem, as there is no basis for arguing that people acting in the manner of Homo economicus co-operate to exclude "public goods" from the market and form a government. At the very least in the hypothesis of neo-classical economics—mutually independent subjects seeking through utilitarian calculation to maximise utility and reduce cost—there is no internal reason for the collective action to exclude 'public goods' from the market and to form a government. Because of this the a priori definition of public goods based on the non-exclusive and non-rival character of these goods is indispensable for neo-classical economics. Regarding the character of the goods, as the role and framework of government is automatically determined beforehand from the Homo economicus hypothesis, to "free" themselves from the hopeless attempt to explain internally the basis of the formation and existence of government, it becomes "possible" to exclude from this model (the general equilibrium model) this very problem. However, on the basis of this the theory of public goods follows into the above mentioned tautology.

(3) Micro-Economics and Income Redistribution Policy

The problem of how to attach priorities, when choosing between public goods within the theory of public goods in neo-classical economics, has also been neglected. The issue of income redistribution policy is often discussed in this respect. This is because it is not possible to explain the supply of income redistributive services within the framework of the neo-classical Homo economicus position.

Certainly it is not that there have been no explanations within micro-economics relating to the basis of income redistribution policies. First, the traditional welfare economics type of explanation of the "maximisation of total utility" as advanced from Pigou[9] onwards has been discussed. Here, even if we disregard the problem of the

possibility of comparison and totalling the utility between individuals, the important point is found in the theoretical hypothesis that the marginal utility of money income will successively diminish. As the marginal utility of the money income of the rich diminishes, it is possible to maximise public welfare (=total utility) through income redistribution policies. However, as the "bubble economy" which arose in the advanced countries shows, it is not always true that the marginal utility of the money income of the rich diminishes. The reality as we see is that the richer you are the more you seek to increase your money incomes and the poorer you are , the more you seek to live modestly. Here the demand for these many money incomes is not reduced by the marginal utility but rather it is increased.

However, the fundamental problem appears when money is transformed into capital. As the recent situation shows, financial liberalisation policies seek to remove restrictions on interest rates or remove the barrier between banking sector and security service, and when the central bank loses its ability to control the economy, capital begins to compete fiercely for investment opportunities because of the limitless increase in value. Even if an exit policy or the removal of limits on working hours is implemented, the situation is the same. It is not that employment and wages are evenly distributed, even though in reality the marginal utility of money income should be comparatively higher for low paid workers. Rather, the market mechanism necessarily worsens the income distribution, and, because it tends to destroy social fairness, income redistribution policies are used.

Secondly, there is an argument that, in order to protect people from falling into poverty, a redistribution policy is regarded as a kind of insurance. The kernel of Akrof=Stiglitz's argument[10)] about reverse selection is that insurance subscription should be compulsory rather than at the discretion of the rich. However, there is no reason why those who have high income and will not live a long life, should want to escape the insurance, because no one can foresee the time of death and the future risk by their bounded rationality. On the contrary, according to this argument, if poor relief were to cover the poor, a public insurance system would not be necessary. The argument that owners would bear the burden of insurance to protect their right to property is offered as the basis for bearing the costs of income redistribution. But the poor, who cannot bear the burden of "insurance costs", theoretically would be excluded both as subjects of determining economic policy and risk sharing. Actually, in a modern state, the right to choose or not to choose was never given to the propertyless, but now, in the welfare state the propertyless or low income groups have the right to existence and participation as independent individuals. If an argument for public insurance is extended to the welfare state, this will be a one-sided way of fixing a normative basis at the micro level.

Having said that, however, as seen recently, theories to restrict the expansion of welfare expenditure by income transfer through private or market supply have had the same problems; in brief, that a theoretical basis has been advanced by taking the external effects of volunteer work or philanthropy as a model. However, The use of these external effects to achieve social order through reputation or income redistribution policies ends up as a paternalistic argument. In this argument, even more than in the above insurance argument, there is no room for the non-propertied except to end up merely as objects of administration. Certainly, if volunteer activity or philanthropy did not exist in society, then it would be very difficult for income to move

from the rich to those caught in poverty, with no opportunity to discover their potential. This argument becomes the starting point of the "free rider" problem.

Thirdly, this is precisely the standpoint which sees income redistribution as a 'public good'[11]. This has a different character that of the earlier two arguments. In this argument, it is partially distanced from the theoretical presuppositions of independent individuals determining utility, and in the model the one finds an increase in their pleasure (utility) in the increase in the other's utility. In this case the income transfer between two people increases utility for both of them but if a third person enters as this can create a type of free rider situation. The policy implications that arise are that welfare activities must be public and not private. That is income distribution itself must be seen as a "public good".

However, even if the income changes are moved into the public sphere, the free rider problem will not be resolved, until the idea that the increase in utility for the other is good for oneself is no longer seen as universal truth. Every argument ends up with the free rider problem. However, the fundamental problem is the question of whether in the general equilibrium model it is possible to see the increase in good for the other as increase in good for oneself as a universal truth. Rather, such human activity at the family, community and welfare state level cannot be established unless it is based on strong consensus community bonds. For this reason, if we break away from this approach, then the methodology of individualism is extremely dangerous and of necessity comes into conflict with the fundamental human problem of "the individual's right to determination and the societies' communitarian demands".

As J. S. Mill writes in his "Autobiography" about the spiritual danger, when an individual has an objective which is outside of the search for individual well being, then you can truly feel happiness[12]. Without positing human beings who think of the others' well being as their own or who sacrifices their own utility for increasing the utility of the other, it is not possible, whether in the public or the private sphere, to establish a normative justification for income redistribution. However, this is clearly reflected in the utilitarian view of humanity. Therefore, neo-classical economic theory is obliged to put income redistribution outside the theoretical structure, with the result the standard of income redistribution measures could only be determined on value judgements and not on a "scientific" basis. However, if the problem is put another way, this is nothing more than saying that the Homo economicus explanation is the only correct "scientific" explanation. If income distribution is vital for sustaining society, neo-classical economics, which cannot resolve this problem from within its theoretical framework, can only construct an explanation of the market, as all is based on a special vision of man or value judgement.

(4) The Problem of Choosing between Public Goods

This problem is not limited to the issue of income redistribution alone. Neo-classical economic theory does not answer the problems in choosing "public goods" which are not related to income distribution, and the question of the order in choosing between "public goods". For instance, let us take the case of the United States: why is tobacco prohibited while guns are not? If one considers the danger to life, the relationship between guns and the death rate is high and the cause and effect relationship clear. It is because of this that in many other countries they are used only by the police and army as "pure public goods" to suppress violence. On the other hand, if

we compare the effect of banning on the tobacco industry and the arms industry, it is difficult to say which suffers a greater loss; there does not seem to be a clear difference. If so, then why is tobacco banned while guns are not? The answer does not come out of the theory of public goods. Taking other examples, there is a wide variety of use and supply of goods which are "public goods" in different countries. To explain this situation the order in choosing between public goods is extremely vague, and rather like a black box even if we presume the existence of what may be called a social evaluation function.

From here on, as the problem expands, we must go back into history. The roots of the problem are in the presuppositions of what are "public goods". It is not possible to consider that goods and service have this character, whether looked at historically or in an international comparative perspective, therefore, and due to this situation, the standard defining public goods holds that they are non-exclusiveness and non-rivalness. As an example, suppose we take the police, there are some private security companies in society. They work to private demand and these are neither private self-defence groups nor public agencies. In developing countries, even what are considered "pure public goods" such as the army can become private goods as in the example of landlords or large capitalist houses with small-scale private armies. Even in the United States, as mentioned above, it is permitted for the individual to own weapons to protect his life and assets. The police or the army as goods or service do not have either a non-exclusive or non-rival character, in reality, it is the state that makes them "pure public goods" after the fact, in order to maintain its monopoly over violence. It is for this reason that there are differences arising from different historical stages and social conditions and that different countries have different supply systems.

The same problem also occurs with law courts. Today, a large part of the victim's compensation is pre-empted for itself by the insurance company acting as an agent. There are countries where the law court system has developed and where customs and morals have been reorganised according to rules but there are multi-religious countries where Islamic, Christian or Hindu codes operate and where Western legal systems do not function properly. Finally, in medical services or educational systems which are merit or social goods (or quasi-private goods), the supply systems are not uniform. The basis of "public goods", if it is determined on the non-exclusive and non-rival character of the service, they should then transcend differences of social structure or stage of historical development to occupy the role of universal categories. However, as seen above even what are today called "pure public goods" are not necessarily offered as public goods. These character of these goods and services, whether of a public or private character, is not determined by the character of the individual good but, rather, by the nature of social relations in the pertinent society.

3. The Boundary between Market and Non-Market Areas

(1) The Logic of Market Economy and the Fundamental Factors of Production

As we have seen, when the dichotomy between public and private in the theory of ownership is taken as a presupposition and the neo-classical market model and the public good argument are combined, then it is not possible to analyse the dynamism

of the relationship between the market and the non-market sector in capitalism. This was made strikingly clear after the 1980's. Market liberalisation based on neo-classical economics was caught in the vicious cycle of ad hoc public interventions and a uniform market liberalisation, and fundamental explanations on the causes and basis for these repeated ad hoc public interventions has been abandoned.

The financial liberalisation measures of the 1980's decade led to the "bubble" and its collapse and it became necessary to use public money for the bad debts of financial institutions. This was not limited to Japan but was the situation in the developed countries. Also in the 1980's the developing countries faced the problem of debt accumulation which piled up rapidly, from the Baker proposal to the Brady plan, a part of the debt was written off and the IMF and World Bank debt insurance emergency financial relief (a kind of ad hoc public intervention and use of public funds) and measures to implement market liberalism or what came to be called structural adjustment was carried out. Finally, as can be seen classically in the United States and England, the dissolution of social insurance and social welfare because of measures based on market liberalism and in turn expenditure on social security actually increased. Even though these types of ad hoc public intervention or investing public fund were an inevitable outcome of these market liberalisation policies, neo-classical economics abandoned giving any explanation for the reasons or for the basis for public intervention.

As mentioned in the beginning of this article, the fundamental basis of this problem lies in the limits of the marketification of the factors of production. Because the factors of production have been confined by the narrow category of "scarcity", neo-classical economics does not have, right from the beginning, the framework to deal with this issue. Therefore, if an analysis is attempted of the structural changing the economy, it is imperative to start by revealing the problem with the narrow concept of "scarcity". Like neo-classical economics in which the theory of public goods starts with the "character of goods and services", if we consider the character of goods, the three main factors of production, that is land, labour and capital (or money), then we realise that they have characteristics that cannot be marketified.

Firstly, normal goods are exchanged between people through the market, their ownership of the goods changes and they are consumed. Man (the subject) buys, sells and consumes goods (the object) and with that he has the "freedom" to dispose of them (that is, the right to decide). However, in the negotiations for labour, nature of the exchange is different from that of normal goods. Because labour is attached to a person, these relations confront people against people and it is not possible to separate subject from object. Therefore, for the consumers of labour, the more they try and consume labour as a commodity over which they exercise the right of use, the more the right of self-determination of the sellers of labour (the opposite side)is infringed. If the consumers of labour seek to increase their right to self determination as consumers of labour, the skill and technical ability of workers is made looser or ended, through an increased use of machines or through a division of labour, so that each person becomes interchangeable in the manner of a commodity. For labour to have the right of self-determination, for simple workers labour can be a commodity in which change of ownership is possible, if this is the case, then they must have training or technical skills "which becomes their own" and they become the owners of these assets. For that, the sellers of labour form unions or other industrial

groupings, and through the public education system they can seek to create a social system for job-training and the acquisition of skills. Therefore, according to the social system, their skill formation as a "special characteristic as capital" increases and convertibility as a commodity decreases so that the function of the labour market narrows. The marketification of the labour market in the factors of production is different from that of normal commodities, as the same people are divided into buyers and sellers: the more they seek to exercise their right to self determination, the greater the increase in the number and complexity of conflicting relations.

To disguise such relations, neo-classical economics, even though it does not categorise them within the Lockean perspective of labour which is the origin of ownership, has to 'support' it through the theory of human capital [13)] as "support". In this theory, education and job-training is seen as investment, so that it is an "independent" individual as a human capital to accumulate education and training; the ability to work and acquire them leads to an increase in investment (for sellers of labour). In neo-classical economics, according to this theory of human capital, the market mechanism is defined by the "systemisation of the individual's freedom", including the sellers of labour.

However, this theory has a basic problem. First, it should depend on family income level, because 'educational investment' is made not by individuals but by their parents. Second, the owners of skills are not determined by prior selection through individual investments; rather the organisation of job-training is carried out either through negotiations between labour unions and industrialists or with the state. That is, the social acceptance of the idea that job-training and skill formation should come to individuals is through communal organisations and rules in the beginning and were not formed automatically through the market mechanism. Third, the character of the good called labour force is completely different from capital. It does not depreciate like machinery; at times it is value added, but can also suffer accidents (illness) or decrease (retiring through age). At the same time, it is not thrown away by contrast to disposal of machinery, because this is a danger to life. For this reason, society seeks to protect people who have been expelled from the labour market through means provided by family, community or the welfare state. Fourth, man does not always see labour in a utilitarian sense as a way to obtain satisfaction, but for there is also an element of self-realisation through labour.

Next, there is a limit to the marketification of land. First, due to the fact that land cannot be produced to be sold. Second, land price varies greatly according to form, location, external environment, area and the like. Third, if once the right of ownership to a piece of land is determined, it follows that all land has an owner. Moreover, daily life and the community are, in many sense, firmly attached to land and aside from succession or unavoidable loans, the sale of land is limited. Fourth, land is immovable and is a non-tradable good. For these reasons, the circulation of land is inherently limited. Compared to other goods, the value of land is very high and therefore, through the market mechanism land is naturally concentrated in the hands of the rich. As land cannot be used up and is hard to consume so it is an easy object of speculation. On the other hand, if land or the natural environment is destroyed restoration can take a long time.

Money, which is the central benchmark of a market economy, is also difficult to marketise, even putting aside the fundamental problem of whether money itself can

be included in the utility function; at the very least, the marginal utility of money income is not always successively diminished as the neo-classical economics would have it. The problem is that if money changes to capital, then it moves around to increase its own value limitlessly. Therefore, if the market is left to its own devices, then it is inevitable that there will either be speculation or a debt deflation. Even if the market generates money internally, changes in credit, along with demand, produce a mismatch at the final means of settlement. The final means of settlement becomes simultaneously important as the debt ratio to income (earnings) increases because of speculation or boom conditions leading to the bankruptcy of the financial order.

Financial stability should depend on the structural hierarchy of the financial system; right at the top is the central bank, the "lender of last resort" which supports trust in the currency and credit system and which has the authority and power to be the ultimate guarantor. There is the possibility of a collapse at the final stage of settlement, even if at the stage when the debt ratio has risen in relation to income (earnings), there is trust in the market that, as the "lender of last resort", the central bank can respond to the situation. For this, the second level is ensuring the controllability of the government and the central bank, so that currency and financial transactions can be carried out within a legal and administrative structure. The market generates a variety of financial instruments. If the financial means for liquidation is suppressed then economic growth will be restrained, but, if financial instruments and credit are allowed to expand without limit, finances will be unstable. Standing between Scylla and Charybdis of these situations the government and the central bank, which have the authority, must systemise a framework for the financial market according to rules and regulations. Then, at the third level in the structural hierarchy of financial system, it is essential to provide a safety net so that the bankruptcy of small financial institutions will not affect the total financial order.

(2) The Structure of the Institutions and the Factors of Production

If there is a limit to the marketification of the factors of production, then, in accordance with the factors market, some type of institutions or a set of rules must be devised; otherwise, the market will be unstable. The problem is that in the institution or rule there are structural conditions. First, the institution or rule within which the factors of production operate will inevitably be subordinated both to "individual right to decision-making or the principles of self-responsibility" and to "a sense of the communality or the public in society". There are limits to the marketification of the factors of production as they inevitably give rise to social inequalities which cannot be put down to self-responsibility. Therefore, according to the logic of public spirit, these must be removed through public action. However, the problem is, if there is no institution or rule of public spirit in society, that it is also not possible for the individual right of decision-making to function on the principles of self-responsibility. Moreover, the market does not have the ability to self-generate such a institution or rule. The market mechanism does not create an equilibrium, but, rather, once a system or rule exists which is impartial and trusted by everyone, in it then people begin to act according to this institution or rule. This type of institution or rule is destroyed through market liberalisation and people who lose these standards then are compelled to act by questioning the "needs" of others. It is ironic that under the

name of market liberalisation, while saying "act only according to self-responsibility", the individual's independence to determine his individual good is lost. People are inevitably subordinated to the good determined by others. The "axiom" that only market liberalisation fulfils Pareto optimality is nothing but a "myth". Truly, this is the lesson of the "bubble" economy.

Second, the institution or rule in the factors market must be linked to a safety net for those who have been rejected by the market, otherwise, it will be unstable. In practice, when the market expels the weak, there is a loss in trust of the institution or rule and there is a danger that this will, at some stage, affect the full factors market. For instance, if we consider the effects of interest regulation, deposit insurance, financial institutions for small and medium scale enterprises and financial systems for emergency relief, it can be seen that the small and medium scale financial institutions are inferior in scale to the large scale financial institutions and therefore, have to give a higher deposit rate, otherwise, they will not attract depositors which in turn leads to a need for high risk and high return investments to guarantee increased profits. Then, if the institutions invested in fall into bad debts, as they cannot meet the final settlement, the danger spreads like a wave through the system. In such a situation, many small and medium financial institutions face management failure, and depositors fearing for their deposits rush to withdraw their deposits. This then gives rise to a chain of bankruptcies, and transactions are stopped. This is how the financial system can be paralysed.

The safety net is used primarily in the theory of finance and, in the medium term, will apply to the market for other factors of production as well. The social welfare system, or the land and housing policy also share this aspect. For instance, if policies to deal with people who cannot work because they are unemployed or sick or old and, moreover, have no home are socially implemented, then these people can continue to function within society. Thus even people who are working will lose long term hope as their future as a result of the uncertainty of unemployment or ageing; therefore, they will take short term economic measures to protect themselves. In this state, it is not only the possibility of the economy worsening because of a drop in consumption, but also social instability and an increase in social illness which might pose a potential threat to the social system.

Third, "the systematisation of the factors market" is necessary not only at the level of the a country's economy but also at the international level as individual countrys' factors markets are simultaneously part of a global market. Particularly, with regard to the currency system and the trade regime in the developing countries, the factors market operates in the marginal areas of world economy, so the institution or rule which incorporates a safety net is necessary at global level. In actuality, during the 1980's liberalisation policy, weaker elements in the developing countries fell into a debt problem, while circulation of money from the developed countries further aggravated this causing a boomerang effect; this posed a danger to the world currency system and international financial order.

It is for this reason that, even within the fixed exchange rate system and the multi-lateral free trade system of the IMF and GATT, there is a safety net from the top to the bottom of the financial structure. This means that, while the conversion of the dollar to gold, which was the final means for settlement, was guaranteed, countries which were in danger in their balance of payment were helped by SDR lending

or by the IMF emergency fund; if even this did not bring the situation under control, a realignment exchange rate was permitted. For developing countries, which have a weak structure of balance of payment, capital control was permitted, and general preferential tariff or, as a safeguard, import restraint were used. The factors market of one country, therefore, operates within a safety net formed at the level of the global economy. For this reason, if the international currency system shows instability and the safety net becomes inoperable, it follows that individual countries will also be affected.

Here the question posed is neither a matter of the Keynsian type of "market failure" nor of the Monetarist type of "failure of government". The problem is also not in a trade off between efficiency and equity. The important point is that the institution or rule for the limits of the factors market for land, labour and capital (or currency) are not self-generated: for this institution and rule in the factors market to function with stability, certain structural conditions are required. These conditions have to do with the fact that,while subordinating the mutually supportive relationship between decision-making and the society's public good, a safety net for those rejected by the market must be linked to the institution or rule in the factors market. This will create trust in the market system and bring about the structural stability in the economy.

By actually taking different perspectives, it becomes possible to see the characteristics of the economies of different countries, and an international comparison of economic systems becomes possible. If institutional formation for the limits of the factors market exists, then, from this it would follow that this becomes possible due to the fact that the institution or rule based on different socio-economic conditions may be characteristic.

4. An International Comparison of Economic Systems

(1) The Special Characteristics of the United States

Let us examine the differences between the Japanese and U.S. economic systems which have been much discussed as a result of the trade friction between the two countries. To elucidate these differences, the formation process and nature of the institution or rule linking the safety net to the factors market will be of great importance. In the case of the United States, at the entrance of the market for the factors of production, the market mechanism plays the greatest role and the safety net is placed at the exit point. This is the greatest difference. In Japan, there is a system at the core of the factors market which ensures stability and the difference is that there is no defined safety net at the exit point. This discrepancy in the "entry and exit point of the factors market" is an important axis for comparing the differences between the Japanese and the U. S. systems.

Let us look at the post-war U.S. labour market. In the United States, according to the 1944 employment law, there is no guaranteed right to existence and a European-type welfare state was never established. In the 1947 Taft-Hartley law, based on the "anti-monopoly" logic of equality between labour and management, sympathetic strikes by labour unions and picketing were banned. It was also made compulsory to declare that the labour union did not have communists to use the

services of the Labour Department, and that, within the factories foremen were prohibited from joining unions.

Even in the United States, where labour unions were restricted to activities within the company and where the public welfare system was weak, dismissed or retired workers were not simply thrown to the market. Here, two safety nets at the exit point of the labour market were formed. First, the dismissal of workers was automatically carried out on the basis of seniority. That is in large-scale industries, as the core job categories were divided according to difficulty for each industry, and with rotation as a uniform rule, it was possible to achieve "protection" for older workers. According to the automatic seniority rule for dismissals, the cost of litigation in determining cases individually was reduced. Second, to help a socially weak welfare system, fringe benefits, particularly pension, medical and health benefits, were expanded in industries. After the Taft-Hartley law, labour unions began to concentrate in their negotiations, not like European trade unions on labour regulations within the industry or wage increase but rather, on the expansion of fringe benefits. In this manner, in the U.S. labour market, while protecting market freedom at the entry point through the rule of seniority in dismissals and a weak welfare system, a system was formed which ensured that, as the workers age the safety net gets stronger. Certainly the entry point of the labour market is flexible, although it cannot be forgotten that the labour market is "divided" in practice by human capabilities and education. However, it is a country which sees its national policy as a "land of opportunity" for immigrants and as a frontier country and since its establishment it has been difficult to place restrictions on the factors market at the entry point. Even with regard to the systematisation of a safety net, the fact of public equality (actual equality) despite income differences cannot be ignored. A system for redistributing income constantly attracts immigrants and leads to an increase in financial deficits.

The formation of a safety net system in the labour market has certain similarities with the way it is formed in the financial (capital) market. That is while protecting market freedom at the point of entry the safety net is formed at the point of exit. For instance, the rejection of federal government monopoly on state regulations or authority for bank licenses, the limits on banks share holding, upper limit on bank interest, the deposit insurance system(FDIC), etc. are some examples. The first three are "regulations" which help promote competitiveness and allow for the easy establishment of new banks, while the system of deposit insurance was designed as a safety net. The last two, particularly after the experience of the Great Depression 1930, were established to prevent the collapse of trust. Interest rate regulation, until the beginning of the 1980's, were used to protect small and medium financial institutions from management bankruptcy before it actually occurred and to deal with banks which brought this about by basically declaring the financial institution bankrupt and then starting afresh either by an absorption or merger policy. The deposit insurance system, by protecting the depositors' savings, also played a role in preventing attachment of savings or their collapse. Reforms through the 1974 law introduced a similar rule into the industrial pension system, so that even in the United States, which is supposed to be very market oriented, in accordance with the limits of the factors market of the factors, there are institutions and rules linked to the safety net system.

(2) The Special Characteristics of Japan

In Japan, the distinguishing feature is that while the entry point to the factors market is narrowed, there is no uniform institution or rule for providing a safety net at the point of exit and this provides "stability" to the core of the system. Let us first look at the labour market. First, in Japan at the point of entry employment and "welfare" are divided, with high protection in one stream and low protection in the other. Unlike the case in the United States, the ratio of the internal production is low and "life time employment and "welfare" are as limited as possible. Even in new companies, low-paid work is given to seasonal or temporary workers and even within the keiretsu or enterprise group less social protection is available for subsidiaries at the lower levels and finally, there is the gender division of labour, with women part-time workers at the bottom. Second, at the core, in large-scale industry and at the periphery in medium enterprises, for labour it is not just basic wages and bonus but there is a great difference in fringe benefits as well. Therefore, the elements of the system differ with the U.S. system. In 1961 a pension and health insurance scheme for all was instituted in Japan and as a social welfare system spread in society, a major part of fringe benefits in company is a variety of housing benefit.

Third, as before, at the entry point, long-term employment and social "welfare" were restricted, but in the internal labour market with the same OJT the "system of job-training" was superficial, further at the exit point there was no automatic rule of seniority, so that employment adjustment was not carried out uniformly. In the United States, where the parts industry is internalised more and the cost of disputes and labour management negotiations kept low, as the rule of seniority is used in labour adjustment, while in Japanese industry the ratio of internal production is low and , as before, the employees whose jobs are protected form a small section at the point of entry, industry in general retains as a significant measure of a flexibility in adjusting employment within keiretsu groups.

Certainly, for people who pass the point of entry in large-scale industry (including keiretsu subsidiaries) "life time employment" is guaranteed even though it may be merely a formal principle. However, this does not rule out the individualistic rivalries within a company. As the "social institutionalisation of skills" and as rules for automatic employment adjustment undeveloped, individual adjustment and progress in promotion can take place. The order of dismissal cannot be planned so that "lifetime employment is not guaranteed, in that sense at the individual level, and therefore, individual competition is assured. To reduce the possibility of dismissal, ongoing company growth is imperative. It is this which gives such a vital importance to "harmony" within a company, and it is the justification for individual assessment. The way in which the safety net works in the factors market in Japan is by channelling market-type rivalry in this direction.

The financial and labour markets in the United States share certain similarities with those in Japan. First, industrial regulations clearly divide banks and security companys, life insurance and non-life insurance companys. Economic policy as well is directed to regulating "orderly competition". "Orderly competition" is nothing but the "moral persuasion" guidance of the Bank of Japan or the administrative guidance of MITI which mediates between administration and industrial groupings to maintain order. Further, for high risk areas, such as infrastructure equipment, export-import trade, and small-scale industry, specific financial corporations and public agencies

have been established in each. Most of these use postal savings, postal life insurance, or a part of the pension funds under the control of the Ministry of Finance to finance such projects.

Second, while at the point of entry a type of pre-emergency stage safety net exists, there is none at the point of exit; thus, there is no fixed automatic safety net when a bank or security company fails. Normally when the management of weak financial organisations worsens, the Finance Ministry and the Bank of Japan between themselves encourage absorption by or merger with a large-scale financial institution. As there is no automatic rule for dealing with bankruptcy, it is thought that this can lead, even through a small opening, to a collapse in the whole order of trust. The procedure for managing bankruptcy is, however, not just confined to this type of action. In 1971 the deposit insurance system was established. After the "bubble" burst in 1991, it began to function in earnest, but here the idea was not to bankrupt badly managed financial institutions, rather, it took the form of transferring before bankruptcy. And to support this the Bank of Japan has provided an emergency rescue fund, though this was not available on a regular basis.

Third, the lack of a clear rule for a safety net at the point of exit in the factors market has encouraged companies to accumulate the land and share capital which would protect the company itself. The companies hold shares with each other within a given keiretsu group, in which a main bank is at the centre of the keiretsu group. Viewed at historically, after the relaxation of the post-war law prohibiting share holdings of this nature, and after the 1964 share market depression, such a share-holding system was established using the opportunities provided by the 1965 capital liberalisation. The safety net for self-protection was then formed at the entry stage of the capital market. Stable ownership of the share within the keiretsu group as the base had the objective of preventing the M & A. This is closely connected with the trend to support and maintain the "life time employment" system in the internal labour market.

Next, the ownership of land for a company itself has two overlapping reasons for existence. First, land and housing policy in post-war Japan differed from that of European countries; there was not a sufficient emphasis on public housing, rental subsidies or urban planning regulation and other such public housing policies but, rather, towards providing public financing for housing, or tax policies to encourage fringe benefits for company housing and low interest housing finance for employees. Therefore, the end demand for land and housing established deep roots. At present, one of the reasons for this can be attributed to the tax structure: this is based on principles of reducing tax burdens by, for instance, taxing land on its original value on the balance sheet, while, at the same time, permitting loans on its current market value of land, deduction of founder's profits, or the use of legally loss-making companies to reduce tax burdens for those who establish them. Corporations were successfully encouraged to build up capital stock through low corporate tax and through the lack of necessity of returning dividend to the share holder. Finally, as land or stock are not included in value added production, after the oil price shock, the rule for raising wages based on labour productivity standards made accumulation of land and stocks a better option for the employer. This organisation of the factors market provided mutual horizontal linkages, and these were among the reasons behind the creation of the "bubble economy". This producted a pre-emptive safety net at the

point of entry for the factors market and, as a by-product, irregular intervention at the exit point.

(3) Industrial Organisation and the Welfare State

To consider the factors market system in post-war Japan and the special characteristics of the welfare state system, the mediation of intermediate groups (e.g. industry and labour unions) between state and individual should be examined. First, in Europe, a uniform pension system, corresponding to the horizontal linkages between industry and the labour market, or to the form of labour unions, was established and developed as an occupation pension system. This public pension scheme (or as it might be, unemployment insurance system) developed together with the growth of social democratic parties and the rights of labour and labour unions. The system of job-training was at the core of a system guaranteed by state regulation rather than union activity. Legal obligation imposed a heavy burden on industry to provide not only fringe benefits but a public pension scheme, unemployment insurance, and, by law, aside from wage compensation, retirement benefits, and protection of pay because of the long holiday system.

Next, as mentioned above, in the United States a public pension scheme and a public medical scheme have gradually been established but are really a "late" development. This development is related to the post-Taft-Hartley law trend toward concentrating labour -management negotiations on the question of fringe benefits. It is because of this that pension and medical benefits were borne by industry, and this also resulted in lower government taxes.

In Japan, on this issue, even after 1986 when the basic pension system was introduced, a public pension scheme has been divided as a sector-based system; despite the insurance law for all old people, a health insurance system based on industry and region has also remained in operation. The weakness of public housing policy reflects the central position of housing and land in the fringe benefits in industry. Nevertheless, at the entry point of the factors market industry, as a self-protection safety-net to restrict the "lifetime employment" group, strengthened its land and stock holdings, while industry lowered its internal production ratio and placed subsidiaries within a keiretsu group to create a hierarchic order. The company based labour union, therefore, as the major intermediate group, mediated between the labour market and the welfare state. This explains the interlinking relationship between institutions and rules in the factors market and different systems within the welfare state.

5. Deregulation and Instability

As we have seen, neo-classical theory fails to comprehend the nature of the boundaries between market and non-market areas. Therefore, the deregulation policy based on the dichotomy of ownership between private and public has not been successful. Because it destroys the institution or rule in the factors market with a safety net, the market system becomes unstable; for this reason, the problem we are now facing is not how to destroy, but, how to reconstruct a new safety net according to the change of market structure. This, however, is by no means an easy task.

The instability caused to the international currency system by the oil shock

brought about the international movement of capital and labour, two of the factors of production, and this movement greatly affected the institution and rule governing the factors market in each country and exercised a "destructive" impact on the safety net. Therefore, it must be emphasized that structural reforms within one country are limited. Thus, it is critically necessary to carry out policy and actual and potential structural reforms to institute a safety net in the market for the factors of production at the same time, keeping shared global perceptions in mind.

Notes

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