The Japanese Welfare State

Private Social Expenditure in the Context of Corporate Social Responsibility: the Implications of its Rise in Relation to Public Social Spending

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Abstract

As governments become poorer or less willing to tax, or as policy about what government ought to do changes, the expectation grows that the private sector will take on what had been the provision of public services. Social spending in Japan—both public and private—as is the case with other East Asian countries, is very low compared to similar OECD nations. The years between 1990 and 2005, however, saw a relatively large jump in the amount of voluntary private social expenditure, even though the Japanese national commitment to social policy went relatively unchanged or increased slightly. This is in conflict with the fact that public and private social spending are negatively correlated (Campbell 2007). Through historical analysis and process tracing, this study sets out to discover what other factors might explain the increase in voluntary private expenditure. The findings are that in addition to variables identified by previous research, the emergence of international corporate social responsibility norms championed by reputable international governance institutions like the ISO, UN and the OECD should be considered as a causal factor, but has been largely ignored by earlier scholarly investigations.

Introduction

In *Government versus Market: The Changing Economic Role of the State* (2011), Vito Tanzi rightly notes that globalization, for all of its positive potential, poses new challenges for states to consider while adapting to a widened, more competitive market. The competition and economic interconnectedness has made it increasingly difficult to maintain a high level of tax, for example, which makes it very difficult for a state to finance universal welfare programs. This type of situation can prompt searches for alternative means of welfare provision.

In the context of globalization, as governments become poorer or less willing to tax, or as policy about what government ought to be responsible for changes, the expectation grows that the private sector will take on what had been the provision of public services. This idea is in line with the finding that public and private social expenditure are negatively correlated, which suggests that public and private spending are in part substitutes for one another (Castles and Obinger, 2007:201). Results from a study don by Olaf van Vliet support a negative relationship between public and private social expenditure. "When the demand for social protection is fulfilled by public welfare state institutions, the demand for private social insurance is lower. In other words, retrenchments in the public social protection system lead to an increase in private social expenditure. However, this substitution effect can only be identified for the short run (van Vliet, 2011:119)."

In advanced industrial states, it seems, there is a broader range of economic alternatives available to choose from (Haggard and Kaufman, 2008). Throughout Japan's welfare state the theme of substitution is common: its economic and corporate policies have been used many times in place of what is considered 'ordinary welfare' in the form of social assistance programs, etc. For instance, lifetime employment in large-scale enterprises is common in Japan, and is the system most often cited as the reason for the consistently low unemployment rate. In addition, fringe benefits and wages tailored to families serve to extend the benefits of the system of the employed to their families.

What is puzzling about the Japanese welfare state when considering the relationship between private and public social expenditure and the nature of the substitutions employed, is that although gross total public expenditure increased slightly between the years 1990 and 2005, voluntary private social expenditure also increased (See Table 1). This suggests that the relationship between public and private expenditure is more complicated than previously thought. In five years' time between 1995 and 2000, the amount of voluntary contribution in Japan grew16 fold starting from 0.2% and moving to 3.2% of GDP in 2000.

Also puzzling is that even though private social spending is positively correlated with a given country's affluence, as measured by GDP (Castles and Obinger, 2007), Japan's voluntary social spending was increasing at the same time the nation was experiencing a relative loss of affluence (See Graph 1).

Table 1. Voluntary Expenditure by Type in Terms of GDP

Voluntary Private Expenditure Type	**1980**	**1985**	**1990**	**1995**	**2000**	**2007**	**2008**	**2009**
Old Age	(a)	(a)	(a)	(a)	**3.0**	**2.9**	**2.8**	**3.1**
Incapacity Related	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Health	(a)	(a)	(a)	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**

Other social policy area	(a)	(a)	(a)	(a)	0.0	0.0	0.0	0.0
Total	(a)	(a)	(a)	**0.2**	**3.2**	**3.1**	**3.0**	**3.3**

Legend:

a Data do not exist

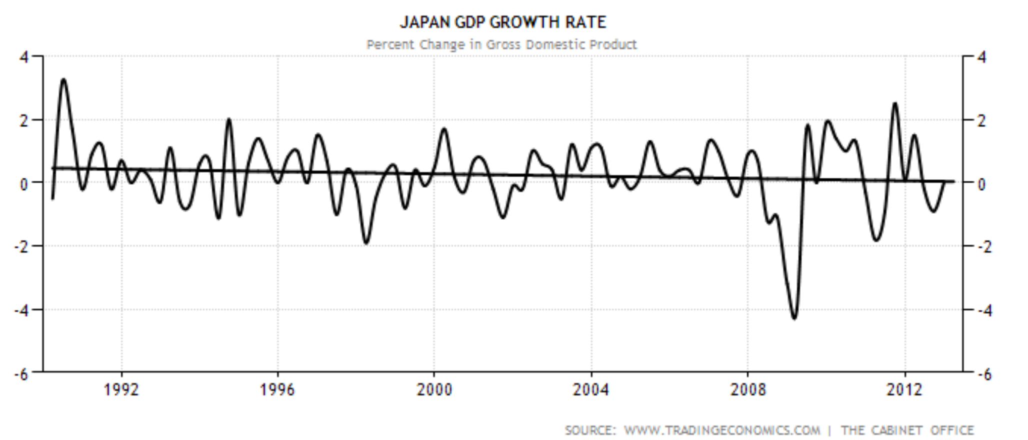
m Data not available

Table 2. Total Public Social Expenditure as Percentage of GDP

Country	1980	1985	1990	1995	2000	2005	2009	2010
Japan	10.2	11.1	11.1	14.1	16.3	18.5	..	..
OECD-Total	15.5	17.2	17.6	19.5	18.9	19.7	22.1	22.0

.. data not available Source OECD.stat

Graph 1. Japan GDP Growth Rate 1990-2013



The question becomes: why is voluntary private social expenditure (heretofore referred to as *VPSE*) increasing despite the fact that public spending is also increasing and that Japan's economy is still relatively stagnant? How can it be that although Japan's level of public social spending as a percentage of GDP was slightly increasing, VPSE was also increasing in the same period (Table 2)? What can explain these discrepancies?

Previous literature has identified a number of factors that are possible contributors to the level of private social spending in a given country. The variables fail to fully explain the above-mentioned phenomenon, however. In addition to the traditional variables of GDP per capita, partisan incumbency (Castles and Obinger 2007), trade openness, volatility of the terms of trade, ageing of the population, and deindustrialization (Van Vliet 2000), I argue that:

> **Hypothesis I:** The impact of emerging international corporate governance norms in the form of Corporate Social Responsibility (CSR) frameworks on the level of VPSE should also be considered as a determinant variable.
>
> **Hypothesis II**: Business in Japan was able to use a different set of international norms to develop its own corporate governance framework outside of the state. Private welfare expenditure increased because Japan was now following a dual track: where the Japanese state could continue to work within its own logic of welfare states, yet also where Japanese business was

not subject to national norms while basing its own decisions about charity on CSR principles that are international in scope

The 1990s in Japan may have been called the 'lost decade' but in fact the decade had not been lost at all. The focus had instead shifted slightly askew of the domestic realm and more toward the international arena, answering calls from fellow OECD nations to assert itself in the global community as a model member to be emulated and not feared.

As an initial starting point, domestic structures such as legal institutions and government funding for social provisions are important environmental settings provided by the state that determine whether global civil society has a chance of surviving. In Japan, the political environment for internationalization was fairly unfavorable until the early 1990s when shifts in government policy led to new support programs for new internationally focused initiatives. One example is when the Japan Bank for International Cooperation established itself by merging with JEXIM and the Overseas Cooperation Fund in October 1999 (JICA online).

By examining these historical and political trends in the past few decades, this paper will explore the impact of international CSR norms on the domestic welfare landscape of Japan. Using primary and secondary source material for analysis, a case is made for the impact of international CSR norms promulgated by international governance institutions like the International Organization for Standardization (ISO) on levels of voluntary private social spending in Japan.

Literature Review

Before jumping directly into analysis, it might be useful to review the structures that are understood to make up a basic welfare state. What does a welfare state look like? Although there is no clear consensus for the definition of a 'welfare state', there is a relative understanding of the basic characteristics that might be present in such a place. Let us consider the welfare state in terms of its main features. According to Ian Gough in an address made to the "Year 2000 International Research Conference on Social Security" stated that in order to be considered a welfare-state regime, there are at least four characteristics that must be present:

> 1. A trend of social policies and programs enacted by the state, separate from social assistance, social insurance and universal citizenship modes of distributing benefits in cash and in kind;
>
> 2. A broader scope of welfare provisions divided between the state, the market and the home
>
> 3.The resulting welfare outcomes judged by the extent to which a household's standard of living is de-commodified in the labor market
>
> 4. The stratification outcomes of these institutions: how and to what extent the welfare system in turn shapes inequalities, interests and

power in society and in this way reproduces the welfare regime through time (Gough, Sept. 2000).

The first two components can sometimes be referenced as together making the ‘welfare mix’. The final equation for the welfare-state regime, then is:

Welfare regime = Welfare mix + welfare outcomes + stratification effects (ibid.).

The Japanese welfare state is occasionally classified as conservative democratic regime, but in reality this categorization is not a good fit. Japan has limited use of universalistic entitlements, making it more similar to liberal democracies. This suggests that the Japanese welfare-state model might not be one of Esping-Anderson’s ideal-typical welfare states (Brooks and Manza Jan. 30, 2006).   The welfare mix is quite different here, especially when considering the heavy hand that business has in private social provision.

Holiday (2000) suggested that a new category of welfare regime best described the Japanese context: *productivist welfare capitalism*—or a welfare state that prioritizes economic over social policy. Economic growth has always been a priority of the Liberal Democratic Party (LDP)—the ruling most party in Japan—and Japan as a collective hole, as evidenced by its export-oriented push in the 1980s (LDP of Japan online). It can also be said, however, that the nation’s economic development can be considered the product of private entrepreneurship to a large degree. In truth, the government has contributed to the prosperity by helping to initiate and support new industries, develop a flexible economic infrastructure to support any shocks in the market; but the reality is that it is the partnership between government and business in Japan that is so fundamentally strong that some have even termed the alliance "Japan Inc." (Country-data, 1994).[1] In Japan, the state buttresses market and family provisions with some universal social programs, possibly putting it into a sub-category termed the *developmental-universalist* approach, but many health and pension benefits are taken care of by the private sector.

Economic growth in lieu of social advancement was not uncommon among industrialized nations in the 20th Century. There was a developing relationship between corporate power and globalization not just in Japan, but other industrialized nations. The United Kingdom, for example, pursued policy priorities in much the same way that Japan did: social policy was subordinated for global economic competitiveness with social welfare. The UK government deregulated and allowed for more flexibility in its labor markets; but beyond this, as was the case for Japan, the private sector was seen by governments as source of support for social policy reforms and 'modernization' (Mooney and Law 2007) of public services. Corporations had also increased involvement in social policy debates, acting almost like mini multi-national governments when CSR firms became heavily involved in the creation and delivery of public and social services. There was an emerging pattern of corporations partnering with government (Farnsworth 2004).

Private enterprise is particularly important in Japan, where the seniority system for wage determination, the provision of welfare benefits over and above what is legally required, and the promise of lifetime employment are all provided for by large enterprises.

[1] Based on Country Studies Series by Federal Research Division of the Library of Congress: http://www.country-data.com/

Of course, this skews the distribution of welfare to those involved in the formal sector, and is sometimes seen by the individuals employed as a status symbol in the highly competitive labor market, but that fact makes business no less important in its social welfare role (Jacobs 1998). The resulting environment was the perfect sort to encourage dedicated efforts toward corporate philanthropic growth.

The subject of private enterprise practicing philanthropy has been studied in the past, but the majority of the literature is concerned with philanthropy from a financial perspective within a cost-benefit analysis model. Here, profit maximization is identified as an important motive for corporate giving, but in reality any level of contribution is constrained by profit margins (Brammer and Millington 2005; Boatsman and Gupta 1994).

Most of the studies in CSR literature focuses too much on the variables that are either strictly domestic or are endogenous to corporations, and not enough on the variables that integration into the international market may pose to multinational corporations. In a rapidly globalizing world, it is increasingly important to consider variables outside the scope of any single nation's domestic situation. Other studies look at changes in corporate contributions as related to changes in the firms' financial assets and tax rates (Bennett and Johnson 1980).

In related studies from social spending literature, additional domestic variables are identified. Castles and Obinger (2007) found in their study of recent OECD research that partisan incumbency influences both net private expenditure and gross public expenditure, although in opposite directions. However, the analysis also revealed that the more the effect of taxes is "netted out", the less politics matters on spending.

Interestingly enough, one of the only studies examining VPSE that started analysis from a more international perspective, using variables like trade openness and volatility of the terms of trade (ToT) to explain changes in private spending, was concentrated primarily on the level of private social expenditure for the individual and not the firm. Olaf van Vliet (2000) found that trade openness, volatility of the ToT, ageing of the population, household savings and GDP per capita were all positively correlated with private social spending in the form of an individual's voluntary purchase of private insurance schemes.

Although useful for thought generation and determination of connections between different factors that may affect VPSE, variables directed at explaining the conduct of the individual, and not the firm, may not provide for the most accurate insight into the problem under consideration here. However, corporations are considered people at least under American Law, so perhaps there is some connection and relevance to the voluntary expenditure exhibited by private firms.

The other variables that have been previously identified as possible determinants of VPSE are also useful, but they do not fully explain the large increase in VPSE in Japan. VPSE increased from 0.2% of GDP to 3.2% of GDP between 1990 and 2000. Although impressive in its own right, the steep increase is puzzling when surrounding economic and political conditions are considered. During that period, Japan's history shows that most of the variables mentioned remained relatively constant, or were increasing at a relatively constant rate during that time, so a percentage jump as high as was exhibited in 2000 would have to be explained by some other factor.

Argument and Hypothesis

Taking in part from sociological institutional theory (Lowndes, 2010:65)[2], I argue that the governance norms developed by the international community through international institutions like the United Nations and the International Standards Organization made it possible for the Japanese business community to embrace CSR and to act autonomously, outside of the auspices of domestic state-business regulatory structure. Japanese business chartered an autonomous course while government operated a purely regulatory role in the domestic arena (Backer 2012). Business was able to use a different set of international norms to develop its own corporate governance framework outside of the state. Private welfare expenditure increased because Japan was now following a dual track: where the Japanese state could continue to work within its own logic of welfare states, yet also where Japanese business was not subject to national norms while basing its own decisions about charity on CSR principles that are international in scope.

From historical record, we know that the last decade of the 20th Century in Japan was characterized by economic setbacks and an anemic growth pattern that continues today. The public social spending portion of the budget did increase during this time, but in a fashion that is consistent with demographic changes within the population.

[2] A form of new institutionalism that focuses on how institutions form meaning and substance for individuals and how the environment in which the institutions operate tempers the relationship between society and institutions

Table 2. Total Public Spending in Percentage of Gross Domestic Product

	Year								
Country	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2009**	**2010**	**2011**
AUS	10.3	12.2	13.2	16.2	17.3	16.5	17.8	17.9	18.1
FRN	20.8	26	25.1	29.3	28.6	30.1	32.1	32.2	32.1
JPN	**10.2**	**11.1**	**11.1**	**14.1**	**16.3**	**18.5**	**22.4**	**..**	**..**
KOR	..	..	2.621	3.248	4.821	6.507	9.604	9.155	9.2
NTH	24.8	25.3	25.6	23.8	19.8	20.7	23.2	23.5	23.7
USA	13.2	13.2	13.6	15.5	14.5	16	19.2	19.9	19.7

Data extracted from OECD.Stat

This creates a bit of a conundrum: as stated earlier, public and private social expenditure are negatively correlated. The fact that both voluntary private and public social spending were increasing—one at a higher rate than the other—contradicts that finding. In addition, other traditional explanatory variables for the level of VPSE, including: trade openness (positive correlation); volatility of terms of trade (positive correlation); ageing population (65 +); household savings (Van Vliet 2000); political ruling party/group; and GDP per capita (Castles and Obinger 2007) show no stark variation to match the increase in voluntary private spending. As a result, research must look elsewhere to find the reasoning behind this increase.

Throughout the 1990s, economic interconnectedness was increasing, along with salience and legitimacy of large intergovernmental organizations. With the Japanese multinational corporate sector expanding and the emergence of an increasingly well-informed consumer base—thanks to the Internet—cooperating with IO's on international standards was inevitable for firms' sustainability into the next millennium.

I argue, then, that emerging international standards and governance norms for multinational corporations championed by IO's like the United Nations (The Global Compact) and the ISO (ISO26000: International Standard on Social Responsibility) impact the level of VPSE through newly forming values concerning Corporate Social Responsibility (CSR). By considering the affect that IO's and general international normative values may have on levels of private spending, changes in Japan's welfare state mix can be better explained.

Methodology

Here I will use historical and analytical narrative to explore the hypothesis stated above. I will first trace the history of CSR and its development within Japan. I will then highlight the transference of the emerging corporate governance norms through IO's and their pressures on multinational firms to develop voluntary codes, which eventually culminated in over-arching international CSR regulatory frameworks. Next, I will illuminate the intrinsic relationship between the Japanese style of philanthropic CSR and public social provision in Japan. By using these steps I hope to show that examining the popularizing CSR norms within Japan and the voluntary governance codes forming internationally may help fill in the gaps in the literature. The appendix will show how the traditional determinant variables attributed to VPSE are alone not enough to fully explain its increase.

Evolution of Corporate Social Responsibility Outside and within Japan

The 1990's are termed together as 'the lost decade' in Japan; it was a period of political back and forth, reform and economic stagnation that continues currently. The bubble economy that formed in the previous decade had collapsed precipitated by the crash of the Tokyo Stock Exchange in 1987, and was promptly followed by a multitude of well-publicized business ethics scandals—Toshiba Machine violating COCOM regulations, is just one example (Kawamura 2004). The bubble economy fully collapsed on itself in 1991, when banks fell into bankruptcy and contract scandals abounded. These were serious problems not only for the future of public social provisions, but also a crux of that system: the Japanese business community.

When Japan emerged from the 1980s as a world superpower and economic giant, it was forced to reexamine its relationship to the global community in order to be validated as a good global citizen (Finnemore and Sikkink 1998). Even before Japanese industry and development policies drove the country to its highest economic point in the 1980's, international and supranational organizations had been increasingly addressing international calls for multinational enterprises to serve a social, political, cultural and economic role as well as being vested with responsibilities traditionally thought solely as state prerogatives, in part to reconcile with their supra-state status. Timothy Curran wrote in 1983 that the international community perceived Japan as having remained virtually isolated from the rest of the world, reluctant to open intercourse with other nations (Curran, 1983:106).

However, the international socialization of "…the corporate governance debate provided both a firmer foundation and a broader context for the social responsibility dispute that had been traditionally confined to a purely national audience (Backer 2005:127)." Japan's new position of power required that it harmonize its domestic corporate governance schemes with international standards in order to remain an international player; the strong emerging international norms pushed Japan into fully taking on its new role as a member of the international community. International organizations were key sources of encouragement to that end. What was once the United Nations Centre on Transnational Corporations (1975-1992) and later the Transnational Corporations and Management Division of the United Nations Department of Economic Social Development (1992-1993) and was finally transferred over to The United Nations Conference on Trade and Development (UNCTAD), in 1999 transferred the issues contained in the original UN Programme on Transnational Corporations to focus on the social responsibility of transnational corporations. The conference asserted that transnational corporations (TNCs) are one of

> *The principal drivers of globalization…[and] the assumption of greater social responsibility by TNCs would be particularly important in light of the economic and social disruptions that accompany the globalization process* (UNCTAD 1999:1) and concludes that, *Greater efforts must be made…to manage the adjustment costs and*

social as well as economic disruption that accompany globalization. By assuming greater social responsibility, firms can assist in these efforts. This is in their international self-interest. It is precisely the purpose of the global compact to contribute to the emergence of shared values and principles, (ibid: 51).

International institutions were and continue to be a driving force behind the dissemination of global norms and ideas, and some international scholars have emphasized the socializing role these institutions have in spreading a cooperative culture to all their member nations (Eyre and Suchmann 1996; Finnemore 1996). Both institutions and nations thrive in the newly surfacing internationalization of not only governance, but also social and economic norms as well.

Globalization as a system of integrated patterns of trade, commerce and general economic activity, has from its very nascence had far-reaching effects on the institutionalization of economic transactions. Inside this system, multinational corporations navigate the sinews of globalization far outside the control of any one state (Robé 1997). The resulting perception was the loss of state power to regulate international economic transactions or to direct the character of the corporations' social responsibility and that these global transactions allocated risk entirely domestically (Backer, 2005).

CSR is a framework to address the affects of globalization—much like the state in Rodrik's (1998) compensation hypothesis—but is not just a protection against risk, but is actually 'good for business'. Domestic risk caused by multinational corporations is to say the least, 'bad for business.' So what is actually 'good for business' in the globalized world of commerce? How were these multinational enterprises to deal with a bad reputation domestically because of the business they are doing abroad? Philanthropic CSR became the answer in Japan. Strategic corporate philanthropy, specifically, can actually be used as a means of advancing corporate interests. K. Tokarski (1999) defines strategic philanthropy as follows: "The process by which contributions are targeted to serve direct business interests while also servicing beneficiary organizations'…" (34) and as a result increases not only the firms' competitive advantage, but also their bottom-line. The charitable activities will exceed expectations of key stakeholders and advance this advantage through 'improved marketing and selling capabilities, higher attractiveness as an employer or better relationships with governmental and nongovernmental organizations (Bruch and Walter 2005: 50).

Like many multinational corporations, those of Japan have shown some resistance to privatizing government social responsibility through direct government regulation on corporate behavior. "Many researchers have argued that corporations may not only resist the imposition of regulations in the first place but may also seek to control or otherwise capture regulators in ways that bend them toward the will of the corporations they are supposed to oversee (Campbell, 2007)." O'Connor and Shumate contend that corporations seek to veer away from CSR as a legal duty to steer toward CSR as an ethical obligation undertaken voluntarily and to appear to assume a greater social role (O'Connor and Shumate 2010).

Corporate scandals like those of Snow Brand and Nippon Meat Packers helped to further expand the scope of CSR (Kawamura, 2004:7), and pressures placed on the business world to contribute to socio-economic development like infrastructure construction, health, environment, and education were becoming stronger during Japan's 'lost decade.' But because companies remained weary of official legislation for Corporate Social Responsibility, many continued to seek to reduce its scope down to the concepts traditional components—charity and ethical conduct.

Charity and philanthropy was Japan's business sector's answer to potential further public relations disasters. This is very apparent in Japan's CSR framework laid out by the Japanese Business Federation, Keidanren. In response to domestic and international pressures in the 1990s Keidanren opted to establish a voluntary Charter of Corporate Behavior to serve as a guide to firms that choose to follow it, reflecting the strong preference of the business community to stave away from permanent legislation to regulate the corporate sector and instead opt for a more free-market self-regulation. Item six of the Charter calls for member firms to:

> *Actively engage in community involvement activities including philanthropy as a 'good corporate citizen.'*

Additionally, item eight states:

> *In line with the globalization of business activities, comply with laws and regulations of the countries and regions where its business operations are based and respect human*

rights and other international norms of behavior. Also, conduct business by taking into consideration the local culture and customs as well as the interests of stakeholders, and contribute toward the development of the local economy and society.

The Charter recognizes the drastic increase in corporate community involvement since the 1990s and its transformation into a distinct pillar of CSR in Japan. The influence of international norms and organizations on the business federation's corporate governance framework is evident in the call for 'those active on the global state [to] play a role…' in solving social, environmental and economic issues through action programs laid out by international processes from ISO and the United Nations.[3] Keidanren notes that in response to growing international public interest in human rights and poverty, it is the responsibility of corporations to examine the issues from a global perspective (Keidanren Charter).

Even before the Keidanren Charter for Corporate Behavior was established in 1991, the 1% Club was founded in 1989 as a group of Japanese companies and individuals who commit to contribute at least one percent of their recurring profits—or disposable income in the case of the individual—to 'social' causes' each year. In the same year, the Council for

[3] The Charter was later tailored to operate within the ISO 26000 framework developed by the ISO: International Standard: Guidance on Social Responsibility. The United Nations Millenium Development Goals and the UN Global Compact established in 2000: *The UN Global Compact is a call to companies everywhere to: (1) voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption and (2) take actions in support of UN goals, including the Millennium Development Goals. By doing so, business can help ensure that markets advance in ways that benefit economies and societies everywhere. Endorsed by chief executives, the UN Global Compact is a leadership platform for the development, implementation, and disclosure of responsible corporate policies and practices. The initiative brings companies together with key stakeholder groups including: Government, civil society, labour, investors, educators and the United Nations.*
The United Nations Global Compact is largest corporate sustainability initiative in the world – with 10,000 signatories based in more than 140 countries, and Local Networks existing or emerging in over 100 countries.
http://globalcompactfoundation.org/about-ungc.php

Better Corporate Citizenship (CBCC) was founded, with strong support from Keidanren, in efforts to solve ongoing investment disputes with the U.S. (CBCC 2013).

The philanthropic focus of Japanese CSR could be said to mimic public social expenditure in the form of welfare provision. Even though private social expenditure might mimic or even duplicate public provisions, however, VPSE began increasing because the private market valued its contribution, and has been since as early as the Edo period. *Shonindo* were the principles that Japanese merchants followed, and what eventually transformed into an economic code of ethics not only for business but also for day-to-day life. This code included concepts of philanthropy derived from the *Jodo-Shin* sect of Buddhism, the most abundant sect in Edo Japan. *In-Toku* in its most literal meaning is "calm, inconspicuous or unwilling to flaunt ones' deeds" and "virtue," but has come to be understood as a 'secret charity' practiced in some ways to "return toward the grace of Buddha and all sentient beings (Aoki, 2005:2)." Corporate philanthropy is thus a form of charity that gives back to the community that supported its existence; a way of repaying society. Not only does this sort of charity commit firms to invest in the future of the society in which they operate, but also augments their level of legitimacy within the international public eye. These principles were solidified through the 20th Century by structuralizing a sense of morality and harmony among merchants, buyers and society as a whole. It was ultimately the public loss of confidence in corporations as a result of corporate corruption and environmental scandals stemming from rapid economic development starting in the

1960s, and the growing international corporate governance norms that drove the development of CSR in Japan.

The increasing popularity of CSR frameworks due to corporate crises in both Japan and around the world encouraged Japan to commit to developing CSR governance schemes that harmonized with the deeply embedded notions of charity and a merchant's obligations to the society in which s/he operates. The globalization of regulation achieved in part by the UN and ISO, provided voluntary guidelines for corporate conduct and "…standards by national, supra-national, and international bodies (Backer 2008: 128)."

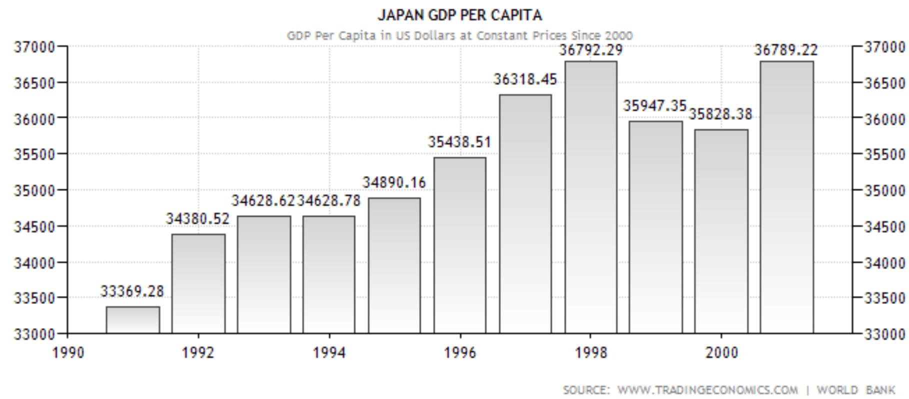
Conclusion

Global competition places a particular pressure on multinational corporations to examine not only their own labor practices, but those of their entire supply chain, from a CSR perspective. Japan needed to show the rest of the world that it was ready to assume its responsibility as a strong nation that was willing to contribute to the global community.

Corporations, like many other non-state actors in the international system, are subject to multiple governance systems within and outside of the state—the U.N. system, international law, and private entities. Although Japanese MNEs work within the national boundary of Japan, they also have an obligation to an international host of consumers. Working within the confines of globalization, firms must not only deal with domestic but also international concerns. Luckily for the domestic arena, this environment, emerging

CSR norms, and the desire of the Japanese welfare state to operate within its own previously established framework, contributed to increased social spending from the business sector.

APPENDIX A.


JAPAN GDP PER CAPITA
GDP Per Capita in US Dollars at Constant Prices Since 2000
33369.28
34380.52
34628.62
34628.78
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35438.51
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36792.29
35947.35
35828.38
36789.22
37000
36500
36000
35500
35000
34500
34000
33500
33000
1990
1992
1994
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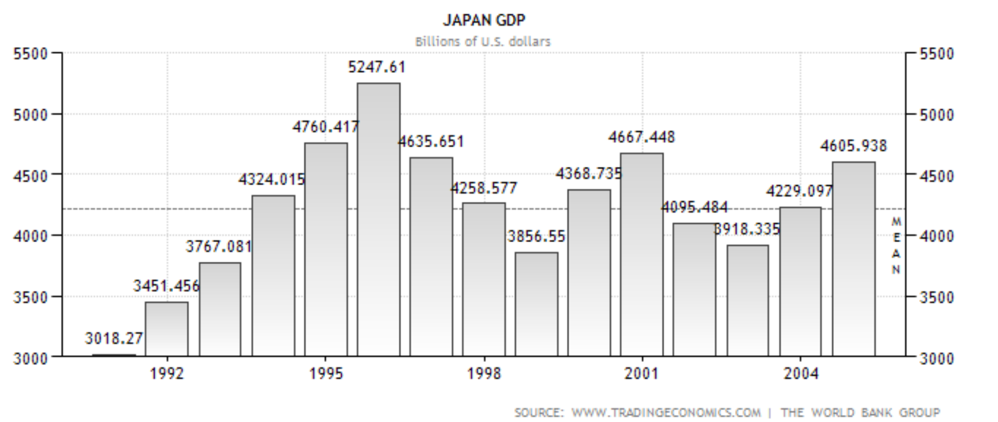
1998
2000
SOURCE: WWW.TRADINGECONOMICS.COM | WORLD BANK


JAPAN GDP
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3767.081
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4760.417
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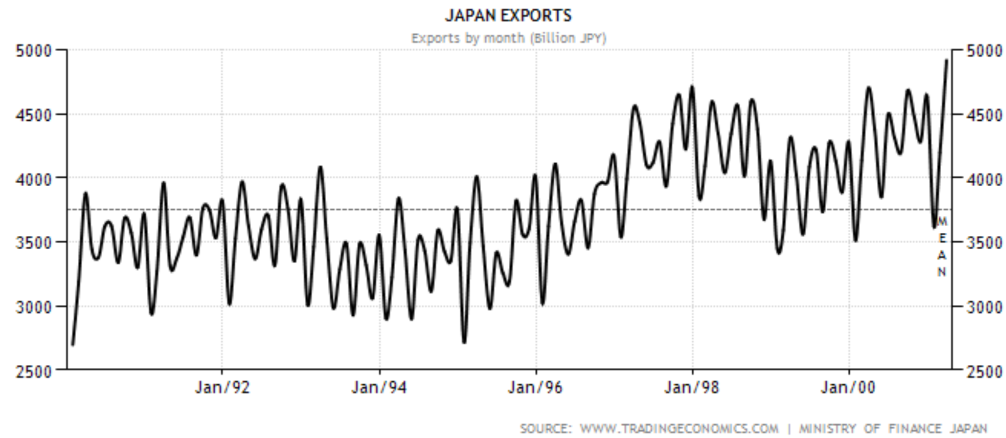
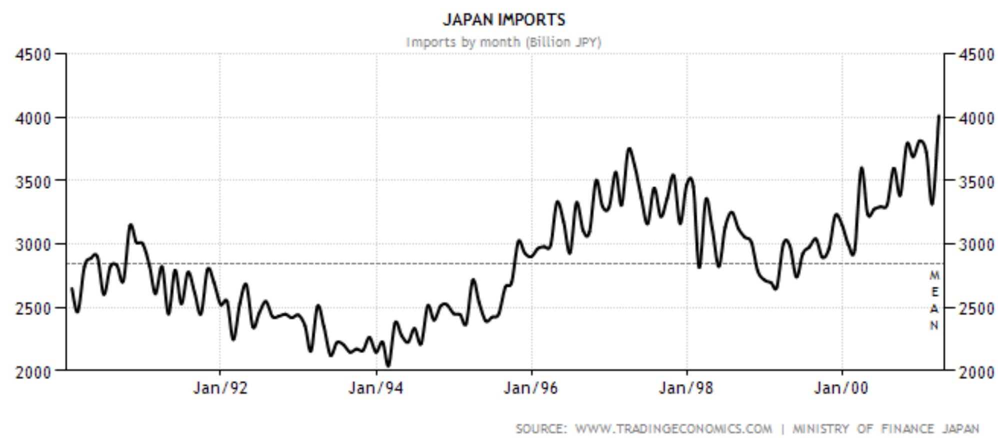
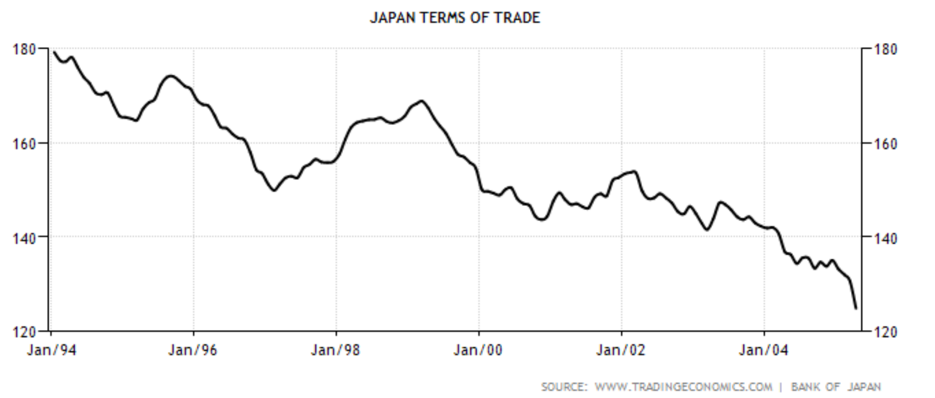
4605.938
MEAN
5500
5000
4500
4000
3500
3000
1992
1995
1998
2001
2004
SOURCE: WWW.TRADINGECONOMICS.COM | THE WORLD BANK GROUP


JAPAN EXPORTS
Exports by month (Billion JPY)
5000
4500
4000
3500
3000
2500
Jan/92
Jan/94
Jan/96
Jan/98
Jan/00
MEAN
SOURCE: WWW.TRADINGECONOMICS.COM | MINISTRY OF FINANCE JAPAN


JAPAN IMPORTS
Imports by month (Billion JPY)
4500
4000
3500
3000
2500
2000
Jan/92
Jan/94
Jan/96
Jan/98
Jan/00
MEAN
SOURCE: WWW.TRADINGECONOMICS.COM | MINISTRY OF FINANCE JAPAN


JAPAN TERMS OF TRADE
180
160
140
120
Jan/94
Jan/96
Jan/98
Jan/00
Jan/02
Jan/04
SOURCE: WWW.TRADINGECONOMICS.COM | BANK OF JAPAN

APPENDIX B.

Addressing Alternate Variables in Further Detail:

Partisan Incumbency (1950-2000): Liberal Democratic Party of Japan was long-standing dominant ruling party after WWII. Only during the year from 1993-1994 was there a change in power to a new coalition party that ousted the forty year long reign of the LDP.

Change in Deindustrialization

pos. correlated with VPSE→Japan deindustrializing since after WWII, when U.S. adopted a lesser version of the "industrial disarmament" program in Germany (Gateau). Since been going on for extended period, the sudden jump in spending from 1995 to 2005 cannot be fully explained by this.

House-hold saving

Because we are focusing on private expenditure as performed by business, house-hold savings would not have a large impact on the level of VPSE in Japan during the period in question.

Ageing of population

Japanese Retirement Ages by Year: 1985, 10 percent of population was aged 65 or older (retirement age). (Campbell & Campbell 1991).

In 1975, 8,790,000 ppl over 65 (or about 8% of total population); 1995 had 18,264,000 ppl over 65 years, or about 14 % of total population; in 2000, were 21,614,000 ppl over 65 years, or about 17% of total population; (United Nations Population Division, 'Japan,' Replacement Migration; pg 55)

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