

## Policy Implications of Social Capital for the Japanese Social Security System

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We discuss the concept of social capital, which has received much attention recently. Social capital is important for the following 2 key reasons: (1) a highly democratic polity and a strong economic performance that attaches great importance to the public good can be achieved on the basis of high social capital; and (2) social capital can effect health status in the human population, and widening of income inequality harms human health through the erosion of social capital. In addition, there are 3 political implications of social capital for Japanese society: (1) social capital has implications for the political decision of whether Japanese society should adopt a “medium burden for medium welfare” or a “low burden for small welfare” model together with the concept of social overhead capital; (2) reciprocity, which is one of the primary components of social capital, is similar to the philosophy underlying the health care system of Japan; (3) Japanese society needs to change from a society that emphasizes the relationships between its members to a society that is open to outsiders and has sufficient opportunities.

**Key words:** social capital, trust, norm of reciprocity, network of civic engagements, income inequality and health

In recent years, in developed countries and especially in the US, there have been many discussions of “social capital” in various areas of the sciences (*e.g.*, social epidemiology, sociology, politics, and economics). Social capital has become one of the most widely studied topics in the field of public health, and more than 27,000 articles have been published on this topic through December 2006 [1].

In this article, we first overview the main discussions of social capital. Then, we examine the policy implications of the concept of social capital for the social security system of Japan.

### The Concept and Importance of Social Capital

***A strong society makes a strong economy and a strong state.*** According to Coleman [2], there

are 3 types of capital; “physical capital” is used for the production of materials and machines, “human capital” is embodied in the skill and knowledge acquired by an individual, and “social capital” is embedded in the relationships among people. The relationship between human capital and social capital is analogous to the relationship between points and lines. Let us assume that A is a parent and B is a child of A. If A educates B, A must have human capital, and there exists social capital that is expressed by the line AB.

In this section, we discuss *Making Democracy Work*

by Robert Putnam, which shows the importance of social capital and has had a major impact on the arguments that followed. He describes the situation in Italy in 1970, when the centralized administrative framework was demolished and decentralization was adopted, and points out that there has been much inequality between southern and northern Italy in terms of the political and economic performance of the local governments. He examines the relationship between the performance of local government and the civic-ness of the local population. Putnam measured the government performance as an integrated index based on 12 variables (*e.g.*, legislative innovation, day care centers, housing and urban development, family clinics, and so on), and measured the civic-ness of the population as an integrated index based on 4 variables (*i.e.*, the activity of local associations, the incidence of newspaper readership, tournament in referenda, and the incidence of preference voting). In his results, these indexes are highly correlated ( $r=0.92$ ), indicating that there are strong associations between the performance of local government and the civic-ness of the local population.

In northern Italy, the civic-ness as measured by the civic community index was high, and the political and economic performance of the local government were also high. In contrast, in southern Italy, both the civic-ness and the performance were low. Putnam showed that social capital is a clearly defined basis of the civic-ness. Social capital is defined as follows [3].

Voluntary cooperation is easier in a community that has inherited a substantial stock of social capital, in the form of norms of reciprocity and networks of civic engagement. Social capital here refers to features of social organization, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions.

He also cites Coleman's definition as follows [3];

Like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence.... For example, a group whose members manifest trustworthiness and place extensive trust in one another will be able to accomplish much more than a comparative group lacking that trustworthiness and trust.... In a farming community...where one farmer got his hay baled by another and where farm tools are extensively

borrowed and lent, the social capital allows each farmer to get his work done with less physical capital in the form of tools and equipment.

The political and economic performance of the society and the organization rises if people cooperate in terms of collaborative activity in the apartment house, management of communal land for agriculture and fisheries, and expenditure on public goods. However, in a society like southern Italy, such cooperation was not common and the standard of living suffered as a result.

As an example that such "dilemmas of collective action" have been overcome and that voluntary cooperation occurs in the community, he showed some types of mutual aid, for instance, the rotating credit associations observed in many countries (which consist of a group of people who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation), Arisan in Indonesia, and KOU in Japan. It is easy for members of a community that accumulates social capital to help each other, and mutual aid leads to strengthening social ties in the community as follows, according to Putnam [3]: "The greater the level of trust within a community, the greater the likelihood of cooperation. And cooperation breeds trust. The steady accumulation of social capital is a crucial part of the story behind the virtuous circles of civic Italy."

Putnam gives a strong account that trust, the norm of reciprocity and the network of civic engagements form the contents of social capital. With regard to the relationships among these components, the norm of reciprocity and civic engagements are assumed to be the source of trust.

In this context, reciprocity is the attitude of appreciating mutual aid. Putnam discusses reciprocity as follows [3].

Each individual act in a system of reciprocity is usually characterized by a combination of what one might call short-term altruism and long-term self-interest: I help you now in the (possibly vague, uncertain and uncalculating) expectation that you will help me out in the future. Reciprocity is made up of a series of acts each of which is short-run altruistic (benefiting others at a cost to the altruist) but which together *typically* make every participant better off.

A mutual aid based on reciprocity has been fixed through the fact that it is seen daily and has played the

role as the norm. Thus, if the exchanges and communications based on reciprocity have been continued over a long period of time, it is assumed that trust is strengthened further through the formation of a tightly-knit social network.

On the other hand, the level of cooperation in the society and its political and economic performance are affected by the existing social network. Putnam discusses the social network as follows [3].

Some of these networks are primarily "horizontal", bringing together agents of equivalent states and power. Others are primarily "vertical," linking unequal agents in asymmetric relations of hierarchy and dependence. ...

Networks of civic engagement, like the neighborhood associations, choral societies, cooperatives, sports clubs, mass-based parties, ...represent intense horizontal interaction. ...The denser such networks in a community, the more likely that its citizens will be able to cooperate for mutual benefit.

Examples from northern and southern Italy are given. In northern Italy, there has historically been variously horizontal mutual aid systems, and citizens have freely used property and have been able to solve the dilemma of collective action. In southern Italy, interpersonal relationships have been vertical and cooperation did not occur among citizens, as they could not overcome the problem of mistrust and could not avoid frequent strikes.

Putnam describes his conclusion as follows [3].

Over the 2 decades since the birth of the regional governments, civic regions have grown faster than regions with fewer associations and more hierarchy, controlling for their level of development in 1970. Of 2 regions equally advanced economically in 1970, the one with a denser network of civic engagement grew significantly faster in the ensuing years. Similarly, ... civic associations are powerfully associated with effective public institutions. The theory sketched in this chapter helps explain why social capital, as embodied in horizontal networks of civic engagement, bolsters the performance of the polity and the economy, rather than the reverse: Strong society, strong economy; strong society, strong state.

Thus, Putnam clarified that in societies where social capital is enhanced, democracy functions effectively and a high level of economic achievement is made possible.

***Social capital and policy.*** In "The Health of Nations: Why Inequality Is Harmful to Your Health", Kawachi & Kennedy showed that in the US there were significant differences in social capital between states by measuring indicators such as those used by Putnam (*e.g.* participation in voluntary associations, interpersonal trust, and reciprocity). These state levels of social capital were significantly associated with the voting rates of the states, and even at the individual level there were differences in political participation between poor and rich people [4].

The differences between states in the US were partly explained by the political culture that was the underlying basis of that state. Elazar categorized political culture in the US into 3 types: moralistic, traditionalistic, and individualistic. First, the moralistic political culture here emphasizes the commonwealth conception as the basis for government and resembles the civic culture described by Putnam in northern Italy: "Good government, then, is measured by the degree to which it promotes the public good in terms of the honesty, selflessness and commitment to the public welfare of those who govern". The states with this type of political culture are "those settled by the Puritans of New England and their Yankee descendants", in particular, the New England states, Michigan, Wisconsin, Minnesota, and Iowa. In contrast, the traditionalistic political culture reflects "an older, pre-commercial attitude that accepts a substantially hierarchical society as part of the ordered nature of things, authorizing and expecting those at the top of the social structure to take a special and dominant role in government." They are rooted in a more paternalistic and elitist conception of the commonwealth and resemble southern Italy "where politics tends to be dominated by vertical patron-client relationships". Geographically, these states are southeastern states, *e.g.*, Virginia, South Carolina, and Georgia, where "the people who settled...sought opportunity in a plantation-centered agricultural system based on slavery." Last, the individualistic political culture "places a premium on limiting community intervention—whether governmental or non-governmental—into private activities to the minimum necessary to keep the marketplace in proper working order". This type of political culture emphasizes market-based principles, and the government is established on the basis of utilitarianism. Geographically,

these states are Midwestern states where the immigrants from England and Germany who sought opportunities in the New World settled [4].

Kawachi and Kennedy point out that "From the description of Elazar's typology, one would predict that stocks of social capital would tend to be low in regions of America historically dominated by traditionalistic political culture, whereas they would tend to be high in areas characterized by moralistic culture." The indicators of social capital and the indicators defined by Elazar's political culture were shown to be strongly associated [4].

### Income Inequality, Social Capital and Health

#### *The effect of income inequality on health.*

Kawachi *et al.* [5] explore the associations among income inequality, social capital and health.

There are 2 mechanisms by which income inequality and health are linked. First, as there are "concave relationships" between income and health (Fig. 1), the effect on health of the income increase gradually declines. As a whole, if there are 2 societies that have the same mean income, the more egalitarian society has a longer life expectancy. If the mean income does not change, widening inequality within the society will decrease life expectancy by this "concavity effect." The second mechanism is independent of the above mechanism, and is called the "pollution effect." Income inequality shifts the curve between income and health downwards (Fig. 2). Therefore, "at the same level of income, individuals living in a more unequal society experience a worse level of health compared to individuals living in a more egalitarian society." The "pollution effect" is caused by (1) adverse health effects due to relative deprivation and (2) the erosion of social capital and the decrease in public goods expense.

The first cause of the pollution effect suggests that dissatisfaction and stress caused by social comparison harm health. In this instance, "they defined an individual's degree of relative deprivation according to the distance between their income and that of others in certain "reference (or comparison) groups," constructed based on combinations of race, education, age-group and state of residence". The data showed that widening the extent of relative deprivation increased not only cause-specific mortality but mortal-

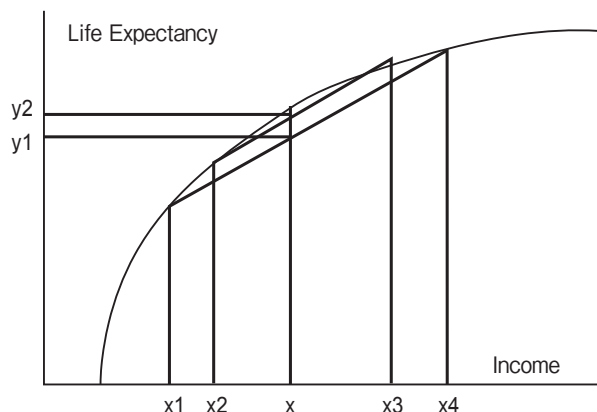


Fig. 1 Theoretical relationship between income and life expectancy.

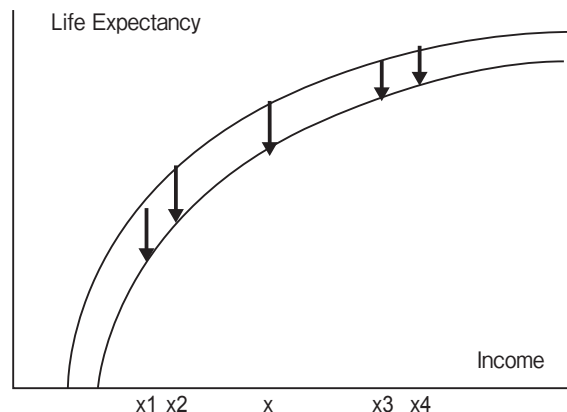


Fig. 2 Downward shift in the income/health curve ("pollution effect").

ity due to all causes.

In the second cause of the pollution effect, the existence of income inequality leads to harm to health by decreasing social capital. The results from the experimental economics provide evidence of this. In these experiments, tokens are distributed to the participants, and they can freely invest in both private and public accounts. In the private accounts they can earn profits via fixed interest, and in the public accounts they can earn greater profits if the amounts of their total investments increase. These situations resemble the "Dilemmas of Prisoners" in Game Theory. It is quite interesting that if the distribution before the game is skewed, and the participants know this, the amount of public accounts is significantly decreased. It is concluded that "the results of this

study provide novel support for recent claims that inequality has important “psychosocial” effects that reduce the tendency for cooperation in collective action problem.”

The relationship between the decline of social capital and harm to health is explained by the finding that in the US spending on social security (proportion of the limit of welfare benefits to income per capita) is less in the states that have lower social capital. In addition, voting rates among voters at lower socioeconomic strata and spending on social security at the state level are strongly correlated.

Kawachi *et al.* [4] explain “The social and political culture of these places (which have low social capital and invest a little in welfare; annotation by JH) truncate the range of social opportunities available to the poor, and thereby increase their vulnerability to ill health.” Kawachi *et al.* [6] showed that in 39 states in the US, income inequality and social capital (measured as participation in voluntary associations and social mistrust) were significantly associated, and these social capital indicators and mortality both from all causes and from coronary heart disease were also associated.

***The relationship between social capital and health.*** As described above, the relationship between income inequality and health is consistently clear in the US; however, the relationship is less clear in more egalitarian countries (*e.g.*, Japan). According to Kawachi and colleagues [5], “there appears to be a threshold effect of income inequality on health, such that the impact of inequality becomes evident only above a certain threshold level”.

Hashimoto [7] discusses whether income inequality affects populations’ health negatively or not, and points out that “It must be clarified which is the cause of harm to health: concave effect (expressed by individual income level) or the direct pollution effect (expressed as the population’s income inequality).” There was inconsistency among the results of studies on income inequality that were conducted by multilevel analysis and published in the 90s, as Subramanian *et al.* [8] pointed out; these inconsistencies included (1) how to deal with individual income, (2) how to deal with the mean or median income of the area, (3) how to deal with areas as dummy variables, and (4) the methodology of statistical analysis. Additionally, Hashimoto claims that the theoretical framework link-

ing income inequality as a characteristic of the area to individual health status is thus eroded (or such framework is not existing) and therefore the value of the model being evaluated is also eroded. Furthermore, there is consensus, theoretically and empirically, that populations with high income inequality have lower health status than populations with low income inequality. On the other hand, Hashimoto points out that extensive future studies including correlation study and qualitative study are needed to elucidate the effect of mechanisms other than absolute income.

Kondo [9] notes, as one of the results from the AGES (Aichi Gerontological Evaluation Study) project, that areas with a low level of social capital indicators have more “inappropriate care groups.” He also summarizes the criticisms of the concept and definition of social capital, and concludes that “the individual relationships between social capital and health are already established by the contribution of many prospective studies. The societal relationships between social capital and health, however, are not clearly demonstrated regardless of being intuitively acceptable and being attractive hypothesis.”

## Discussion

***Social capital and social overhead capital.*** Aside from social capital, there is another concept known as social overhead capital that is used in institutional economics. According to Uzawa, social overhead capital can be categorized into 3 components: natural environment, social infrastructure, and institutional capital. Of these, institutional capital includes a wide variety of institutions, for example, medical care, education, and public administration. He elaborates on the concept as follows [10].

- Social overhead capital refers to the social instrument that makes it possible for the people who live in a given country or specific area to pursue an affluent economic life, develop a fine culture, and maintain a humanly attractive society in a sustainable and stable manner. Social overhead capital has the essential role of protecting the dignity of each person, supporting the independent spirit, and maintaining basic civic rights at a maximum level.

- Social overhead capital, in other words, is embodied by institutional conditions that allow the decentralized market economy to function smoothly and that stabi-

lize the material income distribution.

- Therefore, social overhead capital must not be bureaucratically controlled as part of the governing system of a nation, and must not be influenced by market conditions as a target of profit seeking. Each component of social overhead capital should be controlled and maintained based on expert knowledge and norms.

From this point of view, institutional economics considers medical care on the basis of rights that “should be distributed to people equally, independent of income and possessions, because medical care is made up of goods and services that are essential for human life, and consuming medical care is a right of citizenship based on the right of survival” [11]. The statement below from Kenjo [12] on social security takes the same point of view.

Social security addresses the question of how a society works in which members can live humanly, enjoy the dynamism of the market, and have opportunities to foster their inherently endowed talents are equally open to all members. In such a society, members should be able to utilize services (*e.g.*, medical care, nursing care for the elderly and disabled, child care, and education) regardless of income, residence, or gender; in the society these are considered a common land, and the free market which is enclosed by the common land is dynamically workable.

Therefore, an institutional economics that values social overhead capital intends to construct an affluent society, and has some commonalities with the position of Putnam that traditional democratic societies in northern Italy and the northeastern United States represent realizations of the ideal.

Originally, according to the institutional economics of Veblen, an institution in one society is “not a product which one universal and integrated principle made it logically and deductively, but is a product that is made from mixture of ethical, societal, cultural, and natural conditions in each countries or areas” [10]. Appropriate institutions for a particular society are assumed to be constructed through the democratic process.

In this context, taking into account the works of Putnam, the determinant of the political and economic performances of institutions within the “ethical, societal, cultural, and natural conditions” is social capital, which consists of trust, norms, and social participa-

tion, and in a society that has sufficient social capital it is easy for social overhead capital to develop because the public good and reciprocity are emphasized.

The social security system of Japan now has relatively small burdens to citizens and can be described as exhibiting “small burdens for medium welfare”; for example, the ratio of medical costs to GDP (gross domestic product) is the lowest among OECD countries, and on the other hand the national burden rate is the lowest after the US. Japan needs to decide whether to proceed toward a situation of “small burdens for small welfare” or of “medium burdens for medium welfare” considering social security as a public-interest service. From the viewpoint of social capital or social overhead capital, the latter would make Japan a society in which citizens can live humanly with dignity and enjoy the dynamism of the market.

The question arises as to which concept, social capital or social overhead capital, should be considered, measured, and targeted when setting policy. For instance, when we compare the social security performances of local governments with regard to the promotion of local politics, comparing the indicators of healthcare defined by the concept of social overhead capital is easy to do and is readily understood by the public. On the other hand, it is useful to compare the indicators defined by social capital to decide how to invest the limited healthcare resources of the local government. Thus, it is valid that we utilize both concepts.

***Social capital and social security system in Japan; from the viewpoint of reciprocity.*** The social security system of Japan is sometimes said to represent a “combination of self-help, reciprocity, mutual help, public help”. Here each term is defined as follows: self-help is defined as “egoism”; reciprocity is defined as “egoism with mutual help” (which includes the practice of helping others in the hope of getting help from others in the future in return); mutual help is defined as “altruism with mutual help”; and public help is defined as “altruism”. [13] For example, a health care insurance system that is characterized by universal coverage covers medical services for the treatment of diseases and injuries of the participants themselves and their families through compulsory participation; however, participants in younger age

groups must pay for the medical care costs of participants in older groups (in the same way, those who do not have diseases must pay for those who have chronic diseases). If the insurance were managed by the private sector, insured persons would pay an insurance cost that is appropriate to their health risks on the basis of balancing the cost and benefit. However, in the health care insurance system of Japan, which is based on social insurance, insured persons who have no disease and earn high income pay for much of the cost. Therefore, these systems of Japan are combinations of egoism in the broad sense of the term (the component of the insurance principle of the social insurance system) and altruism (the social policy component) [14].

Putnam writes that “generalized reciprocity refers to a continuing relationship of exchange that is any given time unrequited or imbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future” and that “the norm of generalized reciprocity serves to reconcile self-interest and solidarity” [3]. At the base of the Japanese system, there is a principle of mutual help much like these “norms of reciprocity”.

In the early Showa period (the Showa period began in 1926) in agricultural communities in Japan, social solidarity was developed through community collective action, and the individuals who had grown up in agricultural communities went to urban areas to work for many Japanese companies. Thus, in these companies a community spirit or customs of mutual help (*e.g.* congratulatory or condolence payments, leave) developed, as in rural communities. The health care system of Japan was born on the basis of solidarity between both “Mura (rural communities)” and “Kaisha (companies),” and the universal coverage system was introduced in 1961. Now, however, the previous community spirit or solidarity has disappeared in both rural communities and companies, so the delicate problem arises of determining on what solidarity the Japanese system is based and what social capital produces this solidarity. Further empirical studies should be conducted on the transition and present status of social capital in Japan. However, (1) citizens expect equal medical services according to many public opinion surveys [15], (2) care insurance system was transformed into law in 2000 and is supported by most citizens, and the supply of care services has been

considerably increased based on citizens’ “reciprocity, mutual help, public help”, and (3) resistance to the increasing burden still remains, but most citizens accept tax increases for social security. As shown in the public opinion survey implemented by Yomiuri Shinbun in November 2007, 50% think that “tax increases are not inevitable to maintain the social security system”, and on the other hand 48% think otherwise. From these points, it is certain that there are the attitudes that emphasize the social security as a public good based on social solidarity in Japan.

***Reaction to the concept of social capital; trust.*** Recent attention to the concept of social capital mainly in the US is rooted in the perception that a decrease in social capital, especially of trust, in Western societies has a harmful effect on economic and political performance. We are also interested in the argument about social capital because it is possible that in Japan the decline of trust, which is one of the most important factors in social capital, is caused by social insecurity resulting from the collapse of the “Japanese System” (*e.g.*, widening income inequality, the end of the lifetime employment system). The reaction to the concept of social capital differs depending on whether Japan has a high level of social trust or not.

According to an international comparative study involving 7 countries conducted by the Institute of Statistical Mathematics (1988), to the question “Would you say that most of the time people try to be helpful or that they are mostly looking out for themselves?”, 54% in the US and 31% in Japan responded “people try to be helpful”. To the question “Do you think that most people would try to take advantage of you if they got the chance, or would they try to be fair?”, 56% in the US and 53% in Japan responded “they try to be fair”. To the question “Generally speaking, would you say that most people can be trusted or you cannot be too careful in dealing with people?”, 42% in the US and 39% in Japan responded “most people can be trusted”. As a whole, these results show that trust is higher in the US than in Japan. Among 7 countries (*i.e.*, US, Japan, Italy, France, Germany, Holland, and Britain), Japan had a level of trust that placed them in the middle of the group. The difference between the US and Japan was also shown in experiments involving social dilemmas in the area of social psychology; thus, the difference

affects not only perceptions but also actual behaviors [16].

In the following we introduce Yamagishi's concept of trust [17]. Dealing with the concept of trust, first he suggests that "the difference should be clearly distinguished between (1) trust as a expectation regarding the capability of others, and (2) trust as a expectation regarding the intentions of others", then described that, in the case of (2), there are 2 different types of trust: trust and relief. The former concept of "trust" is based on the perception of the tendency of the actions of others in relation to oneself, and it affects the evaluation of others' personalities, friendliness, and affections toward oneself. On the other hand, the latter concept of "relief" is associated with how others' behaviors affect others' interests. In other words, one thinks that others are not likely to act in such a way as to cause a loss for themselves.

At this time, Japan has a group mentality and has developed the "Japanese System" characterized by lifetime employment in the company, Keiretsu business (dealings mainly only among family companies), and cross-shareholdings between companies. In the Japanese medical world, medical schools have supplied doctors to their associate hospitals and in return these doctors keep their posts for the long-term. Thus they have reduced the uncertainty that comes from dealings or human relationships and have developed a "society with relief". However, after the bubble economy collapsed, the Japanese economy was exposed to globalism, and the transaction cost of the "Japanese System" became expensive. Thus, Yamagishi claims that a society with relief faces crises. According to him, such crises are different from the crises of a "society with trust" based on traditional civic society in western countries, in that societies with trust among autonomous individuals are not based on "warmth from group mentality" as are societies with relief.

Furthermore, trust has the effect of "strengthening" which stabilizes mutual ties through mutual trust. At the same time, trust has the effect of "expansion", in that new outside relationships are constructed beyond relationships between members. The results from social psychology show that the latter effect does not occur in a society that emphasizes the relationship between members, like Japan, which has a group mentality.

The concept of social capital shows that society high in trust can enjoy good health and pursue high economic and political performance. To change Japanese society from a "society with relief" to a "society with trust", it is necessary to develop a social intelligence that "is based on guessing others' actions by thinking from their points of view" in place of the social view that excludes outside members and does not allow strangers to be trusted. It is empirically shown that such an intelligence could be developed in an appropriate social and educational environment with many opportunities for building trust. In addition, information disclosure and transparency of the decision-making process in the public actions of each organization and especially in politics should be emphasized as a social device for improving trust through supporting this social intelligence and reducing uncertainty. The possibility and importance of information sharing in voluntary associations has also been described [18].

## Conclusions

We have discussed 3 political implications of social capital for Japanese society and for our social security system: (1) From the view point of social capital and social overhead capital, we should aim to have a society exhibiting "medium burden for medium welfare" rather than "low burden for small welfare"; this may promote the stability and the development of our society.

(2) Reciprocity, which is one of the primary components of social capital, is similar to the philosophy in which the health care system of Japan is rooted, and we Japanese still have attitudes that emphasize social security as a public good based on social solidarity.

(3) Japanese society needs to change from being a "society with relief" that emphasizes relationships within members to a "society with trust" that is open to others and has sufficient opportunities for outsiders.

In order to make our current society, which is decreasing in population and is rapidly aging, into a more pleasant and desirable society to live in, we need to strengthen social solidarity, which is represented by social capital. At present it is very difficult for us to answer the questions: "Hereafter, what would be the basis of social solidarity in Japan, and how should

we retain it?" The theory of social capital, however, which emphasizes horizontal networks of civic engagement and the virtuous circle of social solidarity and mutual aid based on the norm of reciprocity, clarifies the course Japan should take in the future.

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