

## **Social Capital from the Viewpoint of Policy: An Essay**

Hiroo HARADA

(Dean, Graduate School of Economics  
Professor of Public Finance, Senshu University)

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Social capital is a concept that has emerged and become well known only recently in relative terms. As is often the case with such new concepts, there is often confusion concerning the use of this term. There are big differences in the meaning depending on who uses this term<sup>1</sup>, perhaps because social capital is a convenient or appealing concept. Some people believe that a clearly defined concept should be established to bring order to this confusion. Social capital should then be used only within this context. To end the confusion, Lin (2001) and others want to reconstruct the concept of capital, a process that also includes taking into account the concept of human capital. Going back to the principles of Adam Smith and Karl Marx, they want to separate the concept of social capital from the concept of the flow and stock of capital. Looking back at the events leading up to the emergence of the social capital concept reveals useful insights. I believe that the appearance of this concept is more the result of an inevitable understanding of the current situation than the result of the pursuit of a precise definition by using social analysis.

Let's take a look at how long ago the notion of social capital was first used and when this term came to be accepted in the academic sector and by the general public. There are several ways to answer these questions<sup>2</sup>. The term social capital gained recognition chiefly among sociologists in the 1980s. This recognition began with papers by Pierre Bourdieu, James S. Coleman and others that pointed out the existence and role of social capital. The advancement, accumulation and passing on to future generations of cultural capital were the basis for this position. However, social capital was not recognized by the general public until the impressive and sensational analysis of Putnam (1993) that was based on field work performed in Italy. Putnam concluded that the difference in social accumulation between northern and southern Italy was caused by

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† Dean, Graduate School of Economics. Professor of Public Finance, Senshu University

<sup>1</sup> See the papers of Miyagawa and Omori (2004) and others for many examples of social capital and how the concept came to be established.

<sup>2</sup> Some people believe that the notion of social capital can be traced back to the 19<sup>th</sup> century when the term was used by John Dewey, a well-known U.S. educator.

differences in political performance and social stability. Northern Italy has a long tradition of a civil society dating back to the Middle Ages. As a result, there were spontaneous activities among citizens occurring horizontally as well as the spontaneous formation of groups. These events played a key role with regard to democracy. In other words, Putnam concluded that the accumulation of social capital consisting of *trust*, *discipline*, *networks* and other elements is very important<sup>3</sup>. This position generated a strong response. Putnam's statement prompted many people to attempt to devise indicators that can be used for social capital. One reason is that the concept of social capital and its associated indicators are useful for the analysis of civil societies and democracy in industrialized countries<sup>4</sup>. Furthermore, there were hopes for producing useful perspectives and indicators for the analysis of developing countries as well as for the planning and execution of development plans in these countries. Initiatives of the OECD (Tom Healy and Sylvain Cote (2001)) and World Bank (Japan International Cooperation Agency (JICA) (2002)) and studies like Japan's Cabinet Office Quality-of-Life Policy Bureau (2003) are all prime examples. These events demonstrate that at this stage (the late 1990s), the concept of social capital was already utilized and perceived in an extremely policy implementation context.

The next question is why people came to believe that social capital could be useful for the analysis of developing countries. Examining this question by focusing on Asia reveals that this is the third stance that finally emerged following the previous two stages. For Asia, the first stage is the belief that, until recently, there has been consistency over many years in terms of society, the economic structure and governing bodies. Asia also has a big advantage in terms of the natural environment, climate and other items associated with its geographic location. In one way, this is a traditional and conventional concept. At the same time, though, we can say this has preserved the genial relationships among the people living in Asia. Watsuji (1935) explained that the life styles of people in East Asia are determined by fate because of the tropical monsoon season in this region. In addition, he discussed the cultural, artistic and religious characteristics of this region.<sup>5</sup> Gunnar Myrdal (1968)<sup>6</sup> studied southern Asia with particular emphasis on India. He described the structural background for poverty in this region and provided an institutional approach for ending this poverty.

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<sup>3</sup> Fukuyama (1995) also stated that *trust* is vital to achieving a stable society. He believes that the strong economic growth in Japan, Korea and other East Asian countries is the result of the long tradition in this region of societies in which trust is deeply rooted.

<sup>4</sup> Many years ago, Jacobs (1961) studied the broken-down civil societies of decaying urban areas in the United States, reaching conclusions similar to those of Putnam (2000). This raised concerns about the decline of social capital. On the other hand, more recently, Florida (2002) gave a very positive evaluation of the new class (creative class) that was aligned with the emergence of financial capitalism in recent years. However, this new class may be weak with regard to the social foundation because members of this class do not have deep links to communities and for other reasons.

<sup>5</sup> Recently, Berque (2002) has also adopted the same stance.

<sup>6</sup> Received the Nobel Prize for economics in 1974 with Friedrich Hayek.

The second stage is the search for the secrets behind East Asia's economic growth following World War II. The search began with studies of Japan, which was the first country in the region to recover and achieve economic growth. For example, Vogel (1979) was impressed with Japan's accomplishments and became a U.S. teacher who uses negative examples.<sup>7</sup> On the other hand, Johnson (1982) described Japan as a company that was focused on the single goal of economic growth. He said Japan was able to do this because, after World War II, the country could rely completely on the United States for military protection under the U.S.-Japan security treaty. The control tower for this growth was Japan's ministries, especially the industrial policies of the Ministry of International Trade and Industry. In a broad sense, both Vogel and Johnson can be classified as Japanologists even though their beliefs are diametrically opposed. In any case, economic growth in Japan was followed by the start of growth in the four Asian tigers: Taiwan, Korea, Hong Kong and Singapore. The tigers were then subjected to the same type of analysis. The four tigers are very similar not only in terms of their climate but also in terms of family ties, religion, cultural values and other parameters. As a result, they share many social elements that are consistent with the pursuit of economic growth. This environment subsequently spread to all of Asia, leading to strong economic growth in the ASEAN region, too.<sup>8</sup> The remarkable economic growth in all of these Asian countries created the problem at that time of determining the secret behind the success of these countries. The views of the World Bank (1993) and Aoki/Kim/Okuno (1997) were typical of the perception of Asian economic growth at that time.

Dramatic events subsequently brought us to the third stage. The 1997 currency crisis that entangled one Asian country after another triggered the advance to this stage.<sup>9</sup> Ending the crisis required more than emergency financing from multinational agencies like the IMF and World Bank. A structural political response was also needed. For instance, in response to the Asian currency crisis, a group for regional cooperation was formed in 1997 by the ASEAN +3 (Japan, China and Korea) countries. This move created a new definition for international regional frameworks (ASEAN was initially formed as an organization to fight communism) created for the purposes of cooperation and solidarity in response to a particular situation. But merely supplying financial assistance was not enough to restore the economic and social structures of

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<sup>7</sup> The book praised the self-consciousness of the Japanese public and the big role it played in the success of Japanese companies and products in other countries.

<sup>8</sup> ASEAN was formed in August 1967 by Southeast Asian countries to oppose communism. The original five members were Thailand, Indonesia, Singapore, the Philippines and Malaysia. There are now 10 member countries. In order of their populations, they are Indonesia, the Philippines, Vietnam, Thailand, Myanmar, Malaysia, Cambodia, Laos, Singapore and Brunei.

<sup>9</sup> Inoki (2009) described the growth of the global economy following World War II from a compact perspective (freedom and equality). He explains that the currency crisis was caused in Thailand by its dollar-pegged currency and in Korea by the country's government-managed economy (some sections similar to statements in Japan Inc.).

Asian countries suffering from the currency crisis. Money alone was not a lasting solution. The conclusion was reached that structural initiatives (not necessarily in the sense of reforms, but in the sense of policies aimed at the economic and social structure) were needed as well.

In fact, the OECD, World Bank and other studies mentioned earlier in this paper involving social capital (Healy and Cote (2001), JICA (2002), Cabinet Office, Quality-of-Life Policy Bureau (2003)) took place during this period between the late 1990s and early 2000s. This is because there were limitations to the conventional approach (the types of actions in economics text books) of relying on macroeconomic policies to control national economies that these international agencies had been using. Consequently, these studies were performed at this time because there was a need for analysis and policy frameworks based on a more fundamental economic and social structure. At that time, there were hopes that the social capital concept would play a central role with regard to policies, too.

For these reasons, by early in this century, the concept of social capital had established a clear foothold in the academic sector and as the basis for implementing policies. But many problems still had to be resolved. In terms of theory, one problem was the relationship between the commons theory (communal ownership of land) and social capital. The similarities between the social capital concept and commons perspective were pointed out even by Uzawa (2000). In Japan, many people understand the commons theory by associating it with the commonage problem. However, as was argued by Elinor Ostrom (1990)<sup>10</sup> and others, social capital should instead be viewed in association with public service, cooperation, governance (self-governing capability) and other factors. In addition, from the standpoint of policies, the major variables (for example freedom, equality, trust, stability and confidence, public order and other items) that reflect the core concept of social capital must be operational items. Many of the social capital indicators that people have been seeking in the past are ad hoc indicators. Since these indicators have been created only for specific purposes, conclusions based on these indicators must be viewed as having been reached in a haphazard fashion.

Finally, economic activity in Eastern Asia will probably become even more interlinked because of the accelerating pace of globalization that began in the second half of the 20<sup>th</sup> century. After all, skillfully adapting to globalization means that countries are gaining the ability to benefit from market mechanisms. But East Asian countries would risk losing their distinctive systems of value if they concentrated solely on globalization. Maintaining close economic ties among countries and regions is vital to sustaining economic growth in Eastern Asia. To accomplish this, we must begin with a thorough understanding of the similarities and differences of social capital in each country and region. Even economic collaboration within the context of

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<sup>10</sup> Received the Nobel Prize for economics in 2009 with Oliver Williamson.

globalization does not start on its own or reach maturity automatically. All parties must take actions in a subjective manner. The East Asian Community proposed by Prime Minister Yukio Hatoyama (Democratic Party of Japan) in 2009 is an excellent example of a way to achieve this collaboration. Economic collaboration has become vital in Eastern Asia today according to Inoguchi (2003), Shindo (2007) and others. The question is at what point to propose concepts for taking this cooperation to a higher level. This decision must be made using wise political judgments backed by an accurate assessment of the current situation. In this sense, it appears that the East Asian Community proposal of Prime Minister Hatoyama was made after finalizing only a few details about the nature of this community. During the Asian currency crisis in 1997 and 1998, Japan announced the New Miyazawa Concept (October 1998). This was a scheme targeting the real economy that consisted primarily of bilateral assistance from Japan.<sup>11</sup> The concept helped Asian countries struggling with the crisis to overcome economic challenges and stabilized international financial markets. Asian countries as well as the United States and international agencies all praised the concept. The trial and error process used for this concept targeting the real economy was probably accepted because of the deep ties among Asian countries rooted in their shared histories and geographic proximity.

Japan is the APEC (Asia-Pacific Economic Cooperation) chair country in 2010. Conferences at various levels will take place throughout the year. Most important is the APEC Economic Leaders' Meeting in Yokohama that is scheduled for November. There are hopes that the emergence of proposals for collaboration involving social capital among countries and regions will provide an opportunity for Japan to once again take the initiative. This may also be an opportunity to build a social capital concept that can serve as the basis for policies.

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<sup>11</sup> Prior to the Miyazawa Concept, Japan proposed an Asian currency fund that was debated immediately after the outbreak of the currency crisis in 1997. However, this was a multi-national support scheme designed to stabilize currencies. Since the United States was opposed to this type of scheme, Japan switched to the New Miyazawa Concept.

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