The Political Economy of Social Capital in Japan: How Welfare Institutions and Industrial Relations Shape Social Trust

-

Research Paper 5150011

Clement Nocos, ID 51-148233

Supervisor: Professor Junko Kato

21 May 2015

Dual Degree – Master of Public of Public Policy

International Program

Hertie School of Governance

GraSPP

THE UNIVERSITY OF TOKYO

Abstract

Japan has been a challenging country to categorize for foreign observers and scholars of comparative political economy. In the variety of typologies and frameworks that have been developed to explain the variance in welfare and production regimes between economically developed capitalist democracies, Japan's position within these clusters has been difficult to place. The trouble in placing Japan within these comparative frameworks also complicates the analysis of social capital in Japanese society. Social capital can be briefly defined as the varying levels of trust, norms of reciprocity, and networks used to collectively overcome social dilemmas. Institutions are influential in the generation of generalized trust and it would be expected that different institutional arrangements produce varying levels of generalized trust and patterns of institutional trust. Japan's market-based social welfare system produces peculiar social capital outcomes that differ greatly from archetypical production and welfare regimes. Liberalization and resultant changes to wage and labour structures in Japan have not destabilized levels of social trust as in other advanced, capitalist democracies, but divergent trends in vertical trust between market institutions and partisan institutions have implications for public policymakers.

Contents

Introduction: Japan's Puzzling Position and Social Capital

Japan has been a puzzling country for foreign observers and scholars of comparative political economy to categorize. Through the lens of Gøsta Esping-Anderson's welfare regimes typology (1990), it is unclear whether Japan's developmental welfare state regime should be categorized as a conservative regime, liberal regime, a hybrid of the two, or something else entirely unique (Esping-Andersen, 1997). Though low levels of social expenditure by the Japanese government and dominant private welfare provision follow along the lines of a liberal welfare state, familial social policies and occupational segmentation also give the country some conservative welfare regime characteristics. Through the lens of the Varieties of Capitalism framework, Japan is less ambiguously a coordinated market economy (CME) as opposed to a liberal market economy (LME) (Hall & Soskice, 2001). However, Japan differs from most CMEs with its work-based focus on social welfare and the relative absence of organized labour in economic coordination (Estevez-Abe, 2008). The dual, work-based social security scheme also differentiates welfare provisions between workers within a single industry or firm, constructing in-groups and out-groups receiving different sets of benefits and protections that are segmented more strongly than other conservative welfare state complemented by a CME system. Furthermore, with the onset of global liberalization pressures, these arrangements of Japan's political economy face the need for structural reforms to adapt to an increasingly volatile global economic environment.

The difficulty in placing Japan within these comparative frameworks also complicates analysis of social capital in Japanese society. "Japan is often cited as a country rich in social capital" (Inoguchi, 2002). However, the social and economic inequality that has grown in the country within the past decade should have the effect of weakening trust and networks. The generation of social capital depends largely on how institutional arrangements are designed and developed, and their propensity to generate trust, norms, and networks (Kumlin & Rothstein, 2005). The way welfare institutions and industrial relations are structured, for example, can influence the strength or weakness of generalized trust in a society by way of the equalizing mechanisms that distribute resources fairly and impartially. While countries with conservative welfare regimes are expected to maintain lower levels of social solidarity than the Anglo-

Saxon, liberal welfare states and production regimes (Larsen, 2013), Japan's ambiguous position warrants further analysis into the relationship between institutions and social capital.

The arrangement of Japan's political economy therefore leads to some questions for investigation. Does institutional trust as an independent variable have an effect on generalized social trust as a dependent variable? Do some institutional arrangements generate social capital better than others? What effect do processes of institutional change have on social capital? What are the determinants of trust in Japan and do these differ from the determinants of trust in other developed, capitalist democracies? Do labour market out-groups trust less than in-groups in Japan? Furthermore, are the trends in social capital also having an adverse effect on Japan's economic policies and democratic processes, such as the difficulty in implementing consumption taxes and recent record-low voter turnout? What implications does this have for good governance and public policy? This research paper will consider Japan's institutional arrangements through the complementarity of its production regime and welfare state, and develop a framework for explaining their effects on social capital. This will include an empirical analysis using OECD and World Values Survey (WVS) data for a macro-level comparative analysis between Japan and other developed, capitalist democracies. A micro-level, logistic regression analysis using WVS and Japanese General Social Survey (JGSS) data will also be used to illustrate the determinants of social trust in Japan and the model archetype regimes of Germany's conservative-CME and the liberal-LME regime of the United States.

The Relationship between Welfare and Social Capital

Social capital can be briefly defined as the varying levels of trust, norms of reciprocity, and networks used to collectively overcome social dilemmas (Ahn & Ostrom, 2008). A high level of social capital is often associated with effective collective action, good governance, a robust economy, and democratic efficiency, while poorly performing political and economic institutions are usually equated with the absence of social capital. This is because "social capital, by definition, includes all those behavioural dispositions that help to reduce transactions costs and to overcome the undersupply of public goods that results from the propensity to be a free rider," (Offe & Fuchs, 2002). Therefore, variations in the level of political and economic performance over time between nation states can be explained in part by the varying levels and patterned characteristics of social capital. In much of the literature, trust is held as the most analyzed and integral component of social capital. There are also distinct types of trust. Social horizontal trust is the generalized or horizontal trust people have towards one another, whether between recognized people or strangers; it is indicative of society's capacity or propensity for collective action. Institutional vertical trust refers to the social capital between groups of individuals and the institutions with which they interact. Institutional vertical trust may indicate the source of generated social capital, depending on the institution's capacity for impartiality, fairness, and redistribution (Rothstein & Stolle, 2008). Thick and thin social capital, inward looking and outward looking social capital, as well as bridging and bonding social capital tie networks and communities together by forming trust between and within in-groups and out-groups (Putnam & Goss, 2002). Reciprocal norms like meritocracy can help networks generate bridging social capital.

Of primary analysis for this research paper are the effects that Japanese institutional arrangements have on social trust and institutional trust, as well as the in-group and out-group dynamics of social capital in Japan's political economy. While levels of vertical trust influence the level of horizontal trust, horizontal trust does not have any effect on vertical trust (Eek & Rothstein, 2005). This implies that the generation of social trust is related to institutions in which citizens place high levels of confidence, while high levels of social trust can also exist alongside low confidence in other institutions. Furthermore, there are a variety of types of institutions that maintain varying levels of vertical trust and may not distribute generalized trust evenly throughout Japanese society. There are differences in perceptions between distinct partisan-political institutions, order institutions, power-checking institutions, and market institutions (Rothstein & Stolle, 2008). Variance in the types of institutional trust may depend on the ways that these institutions are arranged to promote socioeconomic equality, and their capacity to produce perceived impartial and fair distributive outcomes. Trust in order institutions, for example, is usually high in democracies: institutions like courts and police in the justice system are usually expected to treat citizens impartially and provide just outcomes. This will be elaborated on further in the discussion on the relationship between institutional arrangements and social capital.

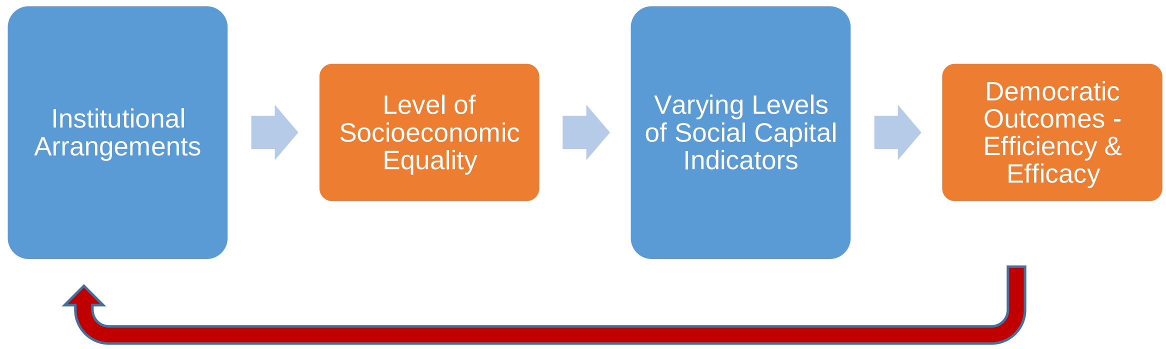

Figure 1 – Relationship between institutional arrangements and social capital.

The generation of social capital depends largely on how institutional arrangements maintain socioeconomic equality. Though major proponents of social capital sometimes negate the effectiveness of structures and institutions as generators of social capital (Putnam, 1993), the specific design of welfare policies and institutions matters for the production of social capital (Kumlin & Rothstein, 2005). The institutional approach centres on the role of organizations and networks that enable the generation of social capital through the establishment of reliable contracts between citizens and the enforcement of rights and rules that sanction freeriding. A welfare system that fosters socioeconomic equality and frequent contact with welfare institutions, whether based on the state, market, or civil society, can lead to an increase in social trust among people that benefit. In universal welfare states, where state mechanisms of redistribution promote equality and social protections, enforcing social contracts with little distinction between “have” and “have-not” groups, generalized trust is strong among citizens. Experience with means-tested state welfare programs, however, tends to erode social trust as have and have-not groups are visibly formed under these kinds of institutions. Means-testing and dualization of qualifications for benefits are typically related to mistrust between in-groups and out-groups (Larsen, 2013). Depending on how they are designed, welfare programs and institutions have the capacity for “making or breaking” social capital (Kumlin & Rothstein, 2005). Furthermore, with stronger resource redistribution and socioeconomic equality, a majority of the population is more inclined to have an optimistic attitude towards engaging with others. A perceived even distribution of resources also consolidates shared values and experiences of the community, as poorer and wealthier classes are not separated by wide normative distances (Uslaner, 2002). Institutions and redistribution as a source of social capital implies that, by investing in institutions, social capital can be generated to produce more democratic and efficient institutions (Brewer, et. al., 2014). Democratic outcomes such as varying levels of efficiency through the speed of the decision-making process and varying efficacy through the level of consensus can, in turn, impact institutional arrangements in a feedback effect by influencing how policymakers maintain and adjust institutional arrangements.

What should be noted in this analysis, however, is that welfare provision is not exclusively to the state; private actors, non-governmental organizations, and the market are also able to provide equalizing welfare that helps generate social capital. It should also be noted that the sheer size of the welfare state or the sums of social expenditure are also unrelated to the variance in social capital. For example, though France has some of the highest social spending in the OECD as a proportion of GDP (OECD, 2014), it only has middling socioeconomic equality among those qualities and low levels of social trust (World Values Survey, 2014). Moreover, though a state-centred approach to trust has predominated the institutional social capital literature, with a particular focus on Nordic model countries in contrast to Anglo-Saxon model social welfare institutions, little has been explored on how welfare arrangements provided by market and non-state institutions also affect social capital. Though countries with the universal welfare state model are known today to foster higher levels of social trust, during the “Golden Age” of the welfare state in the post-Second World War prosperity, liberal, market-based systems of welfare also thrived with high levels of social trust (Larsen, 2013). This suggests that merely maintaining a universal welfare state and socioeconomic equality are not the only ways to foster high levels of social cohesion in a country. How institutions deliver equalization also needs consideration. Even with weak welfare provisions from state institutions, high levels of social capital can be generated by equalization through the market, given good economic conditions and market institutions that effectively equalizes the distribution of wealth and income. Also important for social capital is the perception of socioeconomic equality among members of the imagined community (Larsen, 2013). Citizens that tend to feel neighbours or strangers are being treated unequally, despite living in a country with low levels of inequality or living comfortably themselves, are still less inclined to trust most people. Perceptions of public safety, economic security, and free-riding amongst the imagined community can have beneficial or detrimental effects with regards to social capital. Analyzing these perceptions also helps us to understand different attitudes towards social trust between the different in-groups and out-groups of segmented societies (Larsen, 2013). How structural inequalities affect social capital and its resulting democratic outcomes in Japan will be further discussed in this paper.

Varieties of Capitalism, Welfare Worlds, and Complementarity

For comparing national systems of political economy, Hall and Soskice's (2001) "Varieties of Capitalism" and Esping-Anderson's (1990) "Three Worlds of Welfare Capitalism" provide useful frameworks for analysis. The Varieties of Capitalism approach focuses on economic actors and the arenas in which they interact on the production side of the political economy. Hall and Soskice (2001) distinguish between the Coordinated Market Economy and the Liberal Market Economy and the arrangements in which industrial relations take place. CMEs depend on active coordination, information sharing, and strategic bargaining between market and non-market actors. Non-market relationships are regularized and institutionalized to coordinate economic actors. LMEs, on the other hand, depend on economic signalling, hierarchies, and competitive market arrangements to coordinate actors who are more independent and decentralized. Market competition rather than cooperation characterizes the interactions between economic actors in LMEs. Though market relations are important for economic actors in all capitalist economies, not all are fully mediated by market forces. Still, the degree to which economies rely on market mechanisms and the types of institutions that guide coordination differ between CMEs and LMEs. Furthermore, there are patterned clusters of countries that fall into these types of arrangements: LMEs are generally comprised of the Anglo-Saxon countries, while CMEs best describe Continental Europe, Scandinavia, and Japan (Hall & Soskice, 2001). However, Japan differs from most CMEs in important ways, including that social protection is largely work-based, much like in LMEs (Estevez-Abe, 2006). The relative weakness of labour unions and the complacency of the labour movement with business and state actors positions Japan's political economy further away from the European models and closer to Anglo-Saxon systems.

Esping-Andersen's (1990) distinct welfare regime typologies also provides a complementary state-centred framework for analyzing the arrangements of institutions by the degree of welfare rights commodification between states and markets. Esping-Andersen distinguishes between three types of welfare state regimes: liberal, conservative, and social democratic. Liberal welfare regimes provide the most commodified welfare, relying on measured assistance, modest universal transfers, or modest-social insurance plans dominated by market provisions. Benefits are normally targeted towards low-income state dependents, founded on liberal work-ethic norms. These regimes establish an order of stratification that blends relative poverty for state-welfare recipients and market-differentiated welfare for the majority outside of the working class (Esping-Andersen, 1990). Social democratic, "universalist," welfare regimes are the most decommodified in providing welfare as a social right, where the welfare state promotes equality of the highest standards to working and middle classes and displaces the market. These regimes are also related to higher levels of social capital indicators. Conservative welfare regimes preserve status differences between classes and occupations, where the state still displaces the market as the main provider of welfare but to certain segments of society. Shaped by traditional Christian values, these regimes foster welfare systems meant to preserve traditional family structures through meager child benefits and an emphasis on familial care. Because of social segmentation and the dualization of welfare recipients between in-groups and out-groups, these regimes are middling in Esping-Andersen's scale of commodification (1990). Liberal welfare states are comprised of Anglo-Saxon countries, Continental European countries generally maintain conservative regimes, and the Scandinavian countries are described as social democratic regimes (Esping-Andersen, 1990). Japan features a fusion of key elements from conservative welfare regimes such as occupational segmentation and familialism along with liberal, American-style dominance of private welfare plans and low public provision of social welfare, to give the appearance of a hybrid system (Esping-Andersen, 1997). The implications of Japan's rather ambiguous position as either a hybrid liberal-conservative regime or *sui generis* welfare state should also be expected to have particular effects on the characteristics of the social capital it generates.

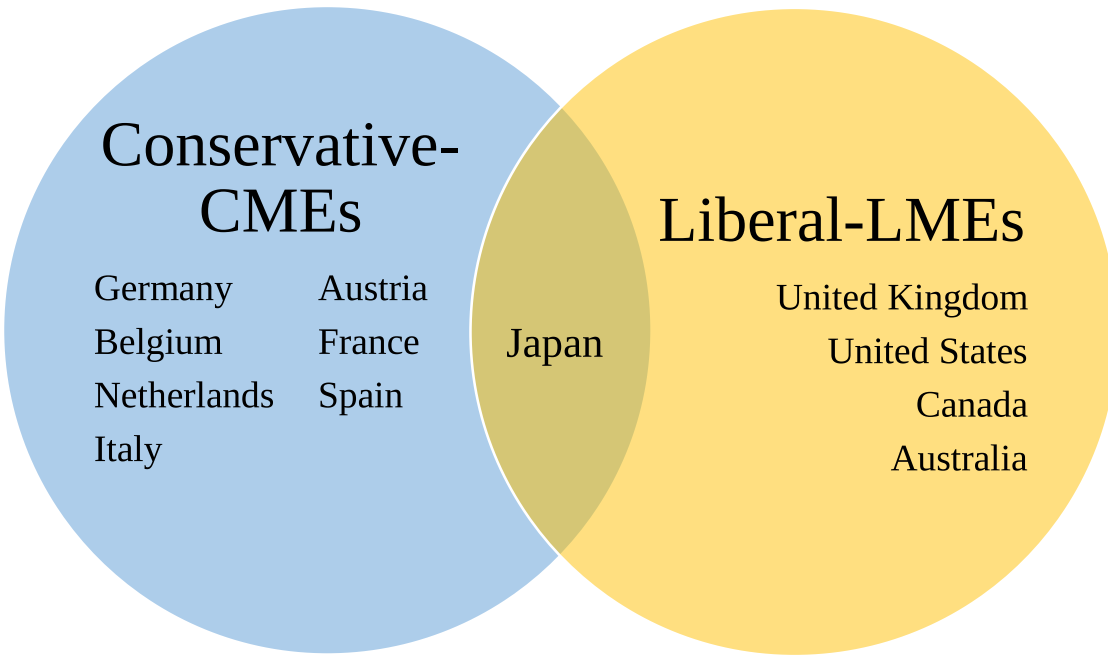

Figure 2 – Japan between conservative-CME and liberal-LME typologies.

As political scientists debate the different groupings based on similar political and economic types, their categories and criteria sometimes run parallel to each other. It is immediately apparent that the LME and liberal welfare state regime categories follow similar groupings of countries, as do CME and corporatist/social democratic regimes (Hall and Soskice, 2001). More importantly, even though both typologies struggle to place Japan firmly within clustered groupings of similar political economies, they do provide foundational frameworks with which to analyze Japan's highly-coordinated market economy and highly-commodified welfare state in comparison to other countries. While it may or may not be possible to classify the Japanese variety of capitalism, it is still useful to evaluate the institutional performance of Japan's arrangements within these comparative frameworks. Despite the different empirical and theoretical frameworks of how Varieties of Capitalism and Welfare World typologies are organized, they "pair up" (Haddow, 2008) or, rather, these welfare and production regimes appear to mutually support each other in the national economy. Though they involve different actors and institutions, both typologies come together and exert a looped causal influence on one another to produce different sets of outcomes. For example, strong unions and collective bargaining in CMEs have the effect of equalizing income distributions, levelling the ground on which more egalitarian welfare states are established (Schröder, 2013). Underlying both frameworks of analysis is to what degree societies rely on market mechanisms to govern production and distribution, though Varieties of Capitalism focuses on the production side while Welfare World's focuses on state distribution. This complementarity also helps to explain how different institutional arrangements generate social capital through their resource distribution mechanisms. The LME cluster and their complementary liberal welfare regimes focus on market-based welfare schemes and less state-centred social protection. CME cluster and conservative regimes focus on retaining a highly skilled workforce and a high degree of institutional coordination. Table 1 below illustrates the strengths and weaknesses of both typologies and how each can be used to reinforce the explanatory weaknesses of the other.

	Weakness of typology	**Solution by complementary typology**
Varieties of capitalism	- Lacks a dynamic framework to conceptualize institutional change. - Very rigid model, cannot explain performances of a number of countries.	Success of 'intermediary and 'failure' of pure cases can possibly be explained by welfare state research.
Welfare state research	Cannot explain firm performance.	Can possibly be explained by VoC.

Table 1 – Complementarity of Varieties of Capitalism and Welfare Worlds typologies (Schröder, 2013).

The frameworks also help to describe the liberalization trajectories of these systems. This is useful for analyzing the relationship between institutional arrangements and social capital because, with changes to the global economic environment, the effectiveness and efficiency of social capital generation from these institutions should also change over time. For example, the decline in social capital among liberal-LMEs over the past several decades has been attributed to the incapacity of these institutions to maintain equalization during periods of economic volatility, first realized during the global energy crises of the 1970s (Larsen, 2013). Among CMEs there are also differences in the effects liberalization has had on coordinating institutions over time, between CMEs paired with conservative welfare regimes and those complemented by universal welfare regimes. For many conservative-CME regimes, institutional rigidity and strategic coordination are maintained at the cost of growing inequality which, in turn, heightens conflict between labour market insiders and outsiders. In universal-CME states, policy preferences for maintaining the welfare state and socioeconomic equality have come at the cost of coordination and flexibility and amicability in the labour market (Thelen, 2014). In the context of Japan and how its institutional arrangements have coped with economic crises alongside a critical demographic shift, these frameworks help to explain the variance in Japanese social capital compared to other industrialized countries, and how that variance has changed or stabilized over time.

In much of the Varieties of Capitalism and Welfare Regime literature, it is generally expected that universal-CME countries maintain higher levels of social capital because of their emphasis on cross national solidarities between members of the imagined community, and between citizens and institutions through the provision of both an active labour market policy and universal welfare state (Kato & Rothstein, 2006). Liberal-LME states once maintained high levels of social trust that has declined since the post-war “Golden Era.” Because of the market-based provision of welfare for the majority and the nature of inter-coalitional conflict in these set-ups, vertical institutional trust in political and power-checking institutions is expected to be low, while the trust in other institutions of the order or market type are expected to be higher. In conservative-CMEs, due to the social segmentation of welfare and an emphasis on social stability, social trust would be expected to remain low; along with vertical trust in political, market and power-checking institutions; and trust in order institutions ought to be high. Though in recent years, conservative-CMEs may have lost some economic efficacy relative to liberal-LMEs (Witt, 2006), the way that conservative-CMEs have had to readjust and cushion the effects of globalization may differentiate their social capital outcomes from that of liberal-LMEs (Larsen, 2013).

Mapping the Japanese political economy and its historical development

Before any predictions can be made as to the relationship between the social capital and institutional arrangements of the Japanese political economy, its position between these typologies should be mapped to provide comparative context for this analysis. The difficulty of categorizing Japan as a conservative-CME comes from the extreme dualism between in-groups of mostly skilled, unionized, core workers employed by large firms and the out-groups of part-timers, precariously employed, the underemployed, and the unemployed. The Japanese state is still involved in the coordinated economy, however, it does not directly provide welfare. Instead, the government relies on propping up large firms that employ a substantial portion of the labour force to fulfill the role of social welfare provider (Schoppa, 2006). Though a small liberal welfare state typology may best describe the meager public spending of the Japanese government, there are principle differences between Japan's social programs and the means-tested or meager-universal programs of the Anglo-Saxon cluster countries. Public healthcare spending in Japan is high compared to liberal-LMEs countries, as a rapidly aging population puts strain on the country's health systems (OECD, 2014). Unlike universal or means-tested healthcare schemes in other Anglo-Saxon countries, those not covered by an employee health insurance program enrol in the National Health Insurance scheme. The lack of differentiation between either health insurance programs gives Japan's healthcare system a quasi-universal characteristic. Basic pension schemes are also provided by the welfare state, but are expected to be complemented by work-related pension plans. For labour market insiders, pension coverage is much more generous than for outsiders.

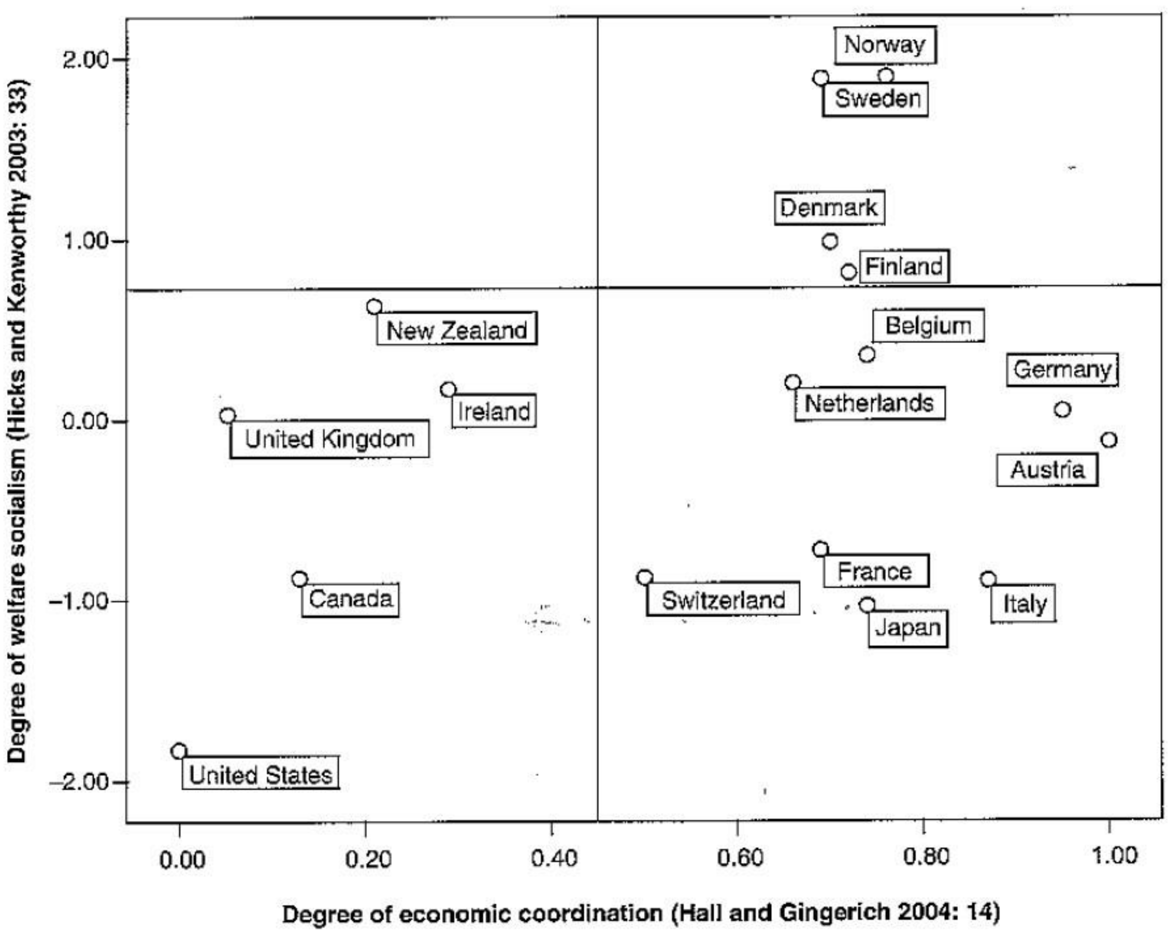

Table 2 – Degrees of welfare decommodification vs. degree of coordination of production regimes (Schröder, 2013).

Some scholars of political economy argue that these typologies as comparative analytical concepts are useless when analyzing Japan, due to the inadequacies of decommodification as a criterion for categorization and inconsistencies of policies between countries of the same regime identities (Kasza, 2006). Still, the purpose of this analysis is not to categorize Japan within these typologies, but to map its position relative to the regime clusters to point out how different institutional arrangements affect social capital, or more directly, social trust and institutional trust. Between the liberal-LME cluster and the conservative-CME cluster, it is not entirely clear where in the middle the Japanese political economy should be placed; is it closer to the Continental Europe model or the Anglo-Saxon model? Placing the Japanese economy along two scales measuring the degrees of welfare state universalism and degrees of economic coordination, Japan's position becomes less ambiguous (Schröder, 2013).

In Table 2 below, the high degree of market coordination in Japan places it closer towards the conservative-CME cluster than to the liberal-LME cluster, albeit at the extreme end of the state redistribution spectrum when compared to the model European countries. Despite frequently being described as having attributes of both clusters, the superficial characteristics of Japan's institutional arrangements are rooted in its economic development. Before analyzing how these institutional arrangements produce social capital outcomes in Japan, this paper will briefly consider its historical foundations.

Compared to the other advanced capitalist democracies, Japan's industrialization developed rather late. This not only influenced a difference in the speed of industrial growth, but it also created a variance in the productive and organizational structures of industry (Geschenkron, 1962). Borrowing welfare and production model regimes from other countries that started out with successful development strategies, the Japanese government after the Meiji Restoration set out to implement the foundational policies of Japan's development political economy. Post-restoration policymakers settled on the *Modell Deutschland*, Bismarckian system of contributory social insurance. The foundations for the in-group and out-group dualism in Japan's modern political economy were set during this period with the intention of preserving the pre-restoration system of social status in the feudal economy and maintaining social stability after the domestic conflicts that came with the end of the of the Tokugawa Shogunate (Schröder, 2013). Japan, however, did not develop the same policy trajectory as Germany had due to the historical circumstances surrounding its economic development and later period of development. While Japan's industrialization was first sparked by *gaiatsu* foreign pressures and the rapid developmental catch up to Western counterparts, German unification in 1871 was a result of industrialization that had already happened with the pre-unification *Zollverein* customs union established earlier in the 19th century. The prominence of large, centralized *zaibatsu* firms as opposed to the decentralized *Mittelstand* model left economic coordination in Japan to employers, excluding organized labour from the coordination process. The development of health insurance and social security schemes, as well as industrial relations, in the first half of the 20th century also followed the same patterns as other Bismarckian systems in the 19th century, though they had less time to mature with the onset of the Pacific War in the 1930s.

On the foundations of pre-war arrangements, the institutions of Japan's post-war developmentalist economy were built again with the goal of catching up to the West (Streeck & Yamamura, 2003). The dual structure *niju kozo* system of productivity was again consolidated in the 1950s and 1960s to supplement welfare and to facilitate the government's "Income Doubling Plan" which relied on economic growth and the market for social policy (Milly, 1999). Policymakers in the post-war reconstruction set goals to eliminate class conflicts while weakening organized labour by establishing a middle-class and a welfare system dependent on economic growth management. By the 1970s, Japan looked more like a liberal welfare state combined with a coordinated market economy, despite the uncharacteristic weakness of organized labour. Business groups and industrial networks coordinated with the government to fulfill Income Doubling Plan goals by promoting economic growth as a means to the end goal of economic welfare (Milly, 1999). This is not to say that labour was totally excluded from coordinated market processes, as unions and other workers institutions are still seen as essential complements to Japanese business management (Witt, 2006). Rather, their influence on economic policy was limited due to already generous benefits provided to those in-group members of labour unions, enabling their complacency with employers. Though health and pension programs were broad and benefits were meagre, like in the Anglo-cluster of liberal welfare states (Esping-Andersen, 1999), Japan's institutional arrangements provided a much greater degree of social protection than its small social spending would indicate (Estevez-Abe, 2008). The economic growth management strategy maintained by policymakers relied on policies of work-based protection that supported guarantees of lifetime employment and generous seniority wages to complement a small welfare state. Until the "Lost Two Decades" that ended the success of Japan's development economy, the historical progress of Japan's welfare and production regimes developed the confounding complementarities that make it difficult to position the country's political economy system relative to other advanced, capitalist democracies.

Japan's highly coordinated economy, without the state redistribution normally associated with

CMEs, worked well until the 1990s. High growth under these production and welfare regimes propelled Japan, at its height, to the position of the world's second largest economy, but its slow economic decline further hampered by dramatic demographic aging have made these complementary arrangements unsustainable. Corrective measures to resolve the economic decline such as political reforms implemented in 1994, attempts to fix structural economic issues like seniority wages and lifetime employment guarantees, and recent macroeconomic policies changes under the "Abenomics" brand have yet to produce an economic recovery. Though worsened by the 2008 Great Recession and the 2011 Tohoku Earthquake, the Japanese development economy has still been slow to adjust to trends of liberalization. Why has an economic model that had performed well above average for several decades failed to fast-track the implementation of policy changes that could help in its recovery? Some say that the Japanese economy is a victim of its own success (Witt, 2006), but two decades on into sustained economic stagnation this argument no longer holds. Furthermore, other attempts at structural economic adjustments, such as the implementation of increased consumption taxes, have failed to gain broad support despite the intended benefits of these reforms. In Germany, on the other hand, unpopular social policy reforms, such as the *Hartz IV* reform in 2005, were nevertheless enacted and led to a significant reduction in unemployment and relieved some liberalization pressures on the country's social welfare system. What may be holding back Japanese policymakers from the autonomy to implement institutional adjustments in the economy may be the misallocation of social capital, with trust directed to market institutions instead of partisan institutions, as a result of the country's solid institutional arrangements.

Macro-Level Observations

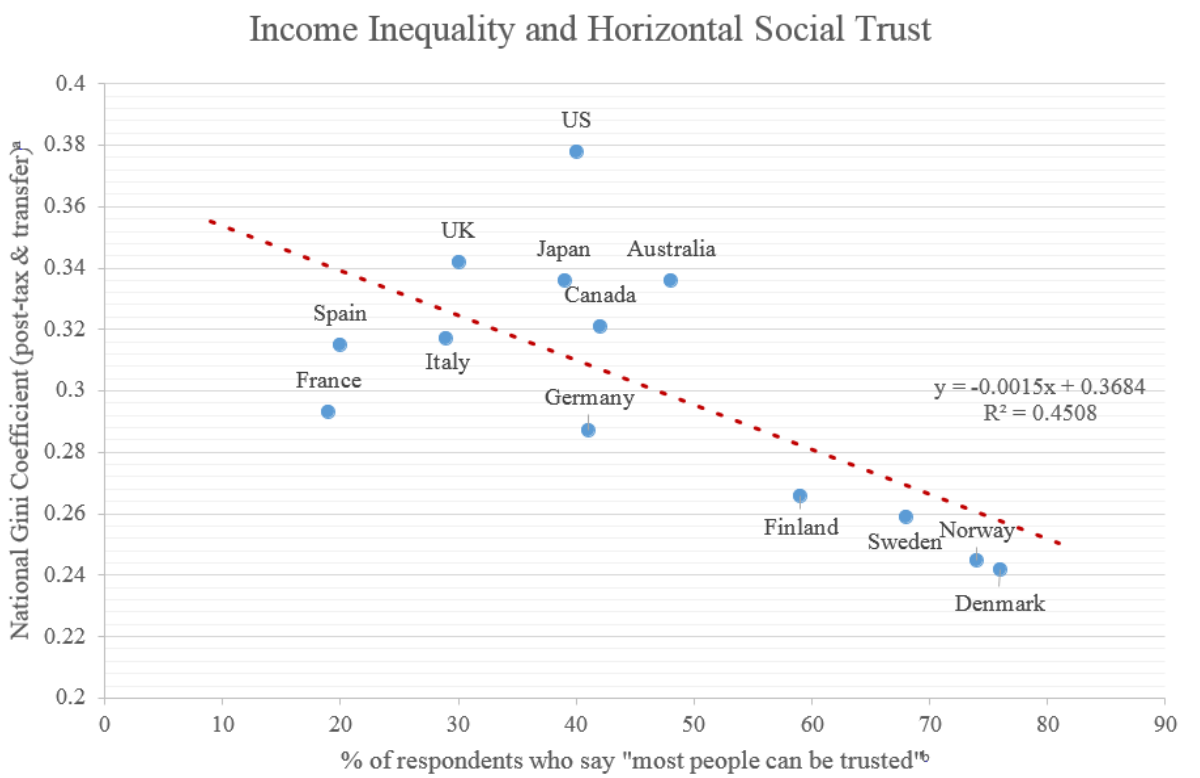

Table 3 – Income Inequality and Horizontal Social Trust. [a] OECD Stats (2008) [b] World Values Survey, Wave 5 (2005-2009)

Universal-CME regimes are generally expected to maintain high levels of horizontal social trust, conservative-CME regimes are expected to foster lower levels of social trust, and social trust levels in liberal-LME regimes finding themselves in between the other two typologies. But what would be Japan's expected social trust output? In empirical analyses, social trust is typically measured using the World Values Survey question: 'Generally speaking, would you say that most people can be trusted – or – that you can't be too careful in dealing with people?' This question reflects a respondent's tendency to trust in others and is therefore commonly accepted as a measure of horizontal trust. As high levels of trust are usually related to efficient democracies, economic growth, and satisfaction with society, this variable captures what most social scientists look for in the study of social capital. The most important aspect of social capital is that citizens believe they share the norm of not cheating each other and can therefore trust, at the very least, most people (Larsen, 2013). Being closer to the welfare and production regimes of the conservative-CME type, it would be expected that the output of Japan's institutional arrangement would be roughly similar levels of social capital. However, with similar redistributive outcomes, Japan's level of social trust fits among liberal-LME regimes. Though conservative-CMEs tend to have more redistributive outcomes, institutional arrangements that foster social segmentation alongside decreased economic efficacy result in lower levels of social trust for these countries. Despite heavy segmentation in

Social Trust in Advanced Capitalist Democracies Over Time

	WVS1 1981-1984	WVS2 1990-1993	WVS3 1994-1999	WVS4 1999-2004	WVS5 2005-2009	WVS6 2010-2014	Trend	Welfare Regime	Varieties of Capitalism
UK	43	44	30	29	30	.	-13	l	LME
Spain	35	34	30	36	20	19	-16	c	Ind-CME
US	41	51	36	36	40	38	-3	l	LME
Canada	49	53	.	37	42	.	-7	l	LME
France	25	23	.	21	19	.	-6	c	Ind-CME
Japan	42	42	42	43	39	39	-3	c/l	LME-CME
Finland	57	63	49	57	59	.	2	s	Nat-CME
Italy	27	36	.	33	29	.	2	c	Ind-CME
Australia	48	.	40	.	48	54	6	l	LME
Sweden	58	66	60	66	68	65	7	s	Nat-CME
Norway	61	65	65	.	74	.	13	s	Nat-CME
Germany	32	38	42	32	41	45	13	c	Ind-CME
Netherlands	45	54	.	60	45	67	22	c/s	Nat-CME
Denmark	53	58	.	67	76	.	23	s	Nat-CME
Lib-LME mean	42	49	35	34	40		-2		
Cons-CME mean	30	33	36	31	27		-3		
Soc-CME mean	57	63	57	63	69		12		

Table 4 - Social Trust in Advanced Capitalist Democracies Over Time, World Values Survey Wave 1 (1981-1984) - Wave 6 (2010-2014). Percentage of respondents who answer 'Most people can be trusted'.

the economy through *niju kozo* labour market dualism, however, Japan deviates from the conservative-CME cluster. Though Japan's position at this point in time is closer to the liberal-LME cluster, over time it has also maintained a very stable level of social trust. Unlike the other liberal-LME countries where social trust indicators have varied widely in the past three decades, Japan's social trust has remained remarkably stable, only dropping 3 points between 1984 and 2014.

Though the level and consistency of social trust in Japan has been associated with the lack of radical change in the Japanese business system (Witt, 2006), what are the social capital generating mechanisms in the political economy that have been causing these outcomes, and why have they remained intact despite decades of liberalization? In other conservative-CMEs like Spain and France, for example, economic crisis and the structural changes within the coordinated market economy have been associated with the decline of social trust, as their capacity to maintain socioeconomic equality has diminished. In Japan, however, a strong network of interlinked business groups through the *keidanren* federation, *keiretsu* groups, research and development consortia, and a tripartite state-associations-firms nexus, along with strong arrangements between employers and labour, have yielded a stubbornness for structural change (Witt, 2006). The mechanisms behind this continued strength of economic institutional arrangements and their effect on social trust will be further discussed in this paper.

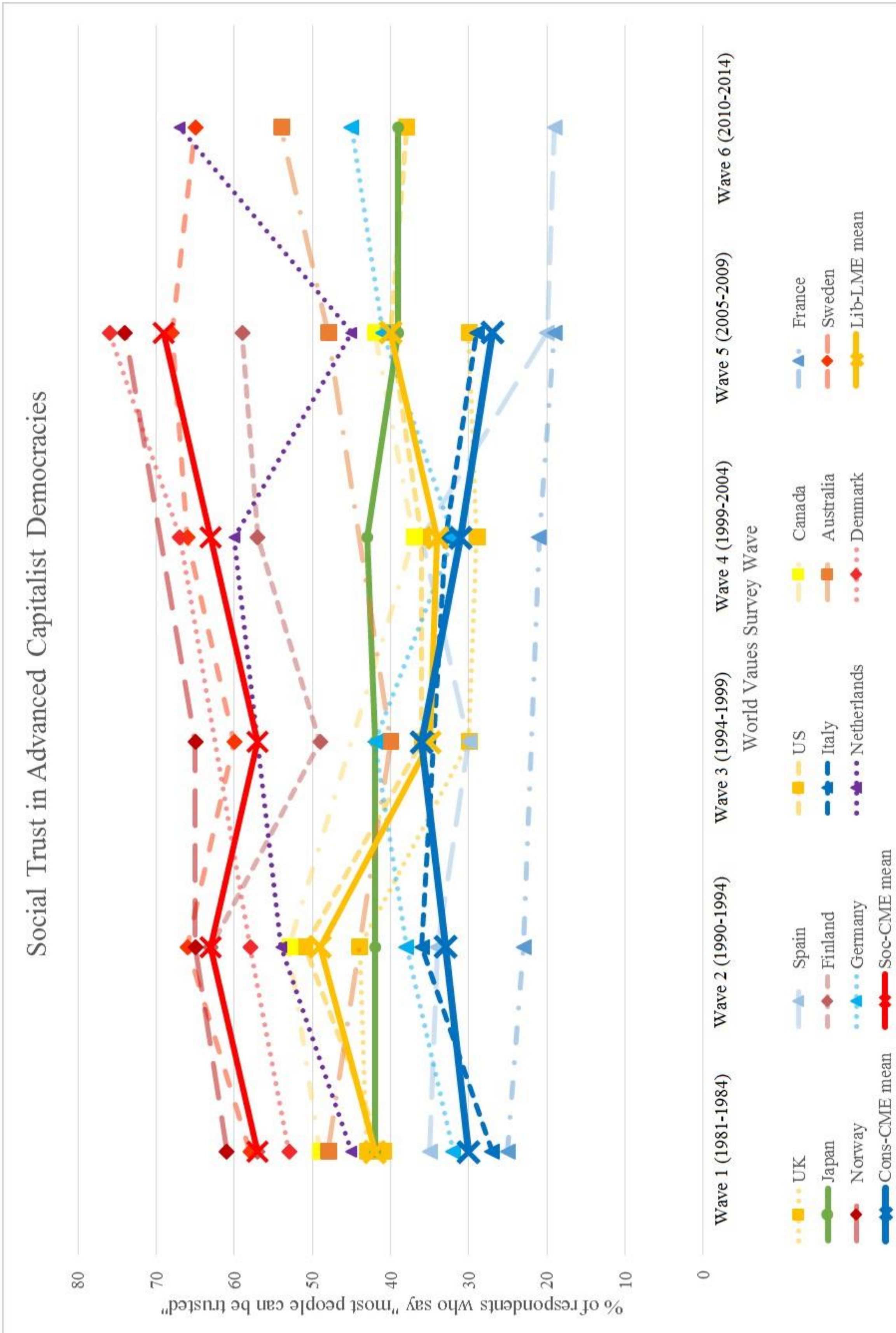

Table 5 - Social Trust in Advanced Capitalist Democracies Over Time, World Values Survey Wave 1 (1981-1984) - Wave 6 (2010-2014).

Despite the economic stagnation of the last two decades, social trust in Japan does not seem at all affected. If the diminished equalization outcomes of institutional arrangements under liberalization stresses are supposed to have an effect on horizontal social trust, they do not appear to have an effect in Japan. However, when comparing cross-national levels of vertical trust, between Japan and the archetypical regimes of Germany and the United States, it is clear that vertical trust varies between institutions (Rothstein & Stolle, 2005): citizens make distinctions between partisan, order, power-checking, and market institutions and can have varying degrees of confidence between them. Table 6 below categorizes some available variables from the World Values Survey that indicate vertical trust in a variety of institutions.

Partisan Institutions	**Power-Checking Institutions**	**Order Institutions**	**Market Institutions**
• Government • Political Parties • Parliament • Civil Services	• Press • Labour Unions	• Justice System & Courts	• Major Companies • Banks

Table 6 – Distinctions between institutions and corresponding WVS variables for analysis (Rothstein & Stolle, 2005). Addition of market institutions to the Rothstein & Stolle, 2005, model.

Citizens make distinctions between institutions and, depending on the institution's impartiality, tend to share opinions on their fairness and efficacy at generating equalization or redistribution. Citizens place their confidence and trust in the institutions they perceive as impartial and equalizing (Rothstein & Stolle, 2005). Institutions with higher levels of confidence may be the generating source of generalized trust in a society whereas institutions with low levels of confidence might not be influencing the level of generalized trust, or may even be having a negative effect (Eek & Rothstein, 2005). Changes in institutional trust over time could also be the result of institutional retrenchment or changes in the institution's capacity to carry out equal treatment and resource redistribution. What follows is a comparison of the patterns of vertical institutional trust between Japan, the United States, and Germany from the past three decades.

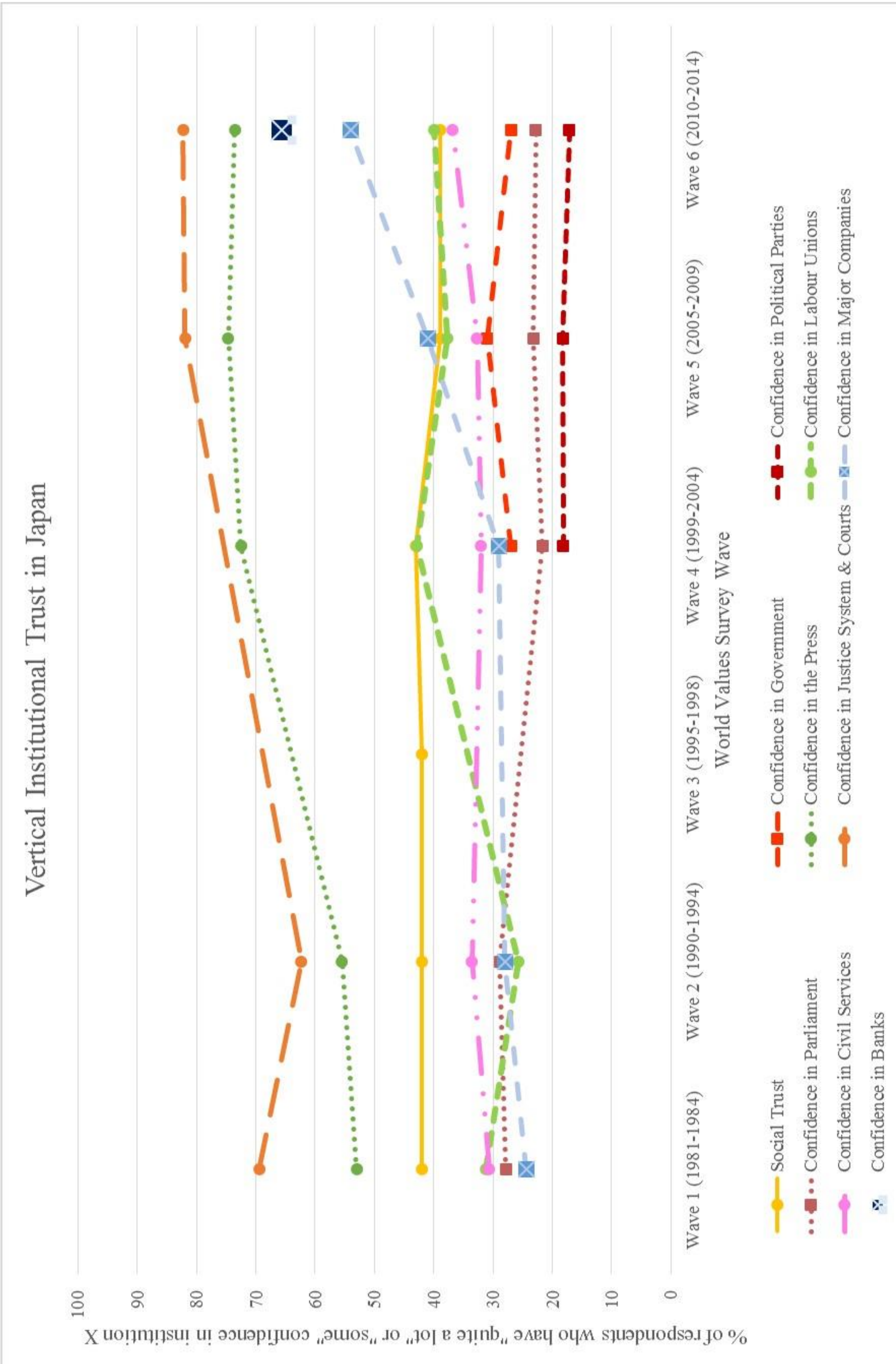

Table 7 – Vertical Institutional Trust in Japan from the aggregated World Values Survey. Social trust is in yellow. Confidence in partisan institutions are in red hues, confidence in power checking institutions are in green hues, confidence in order institutions in orange, and confidence in market institutions are in blue.

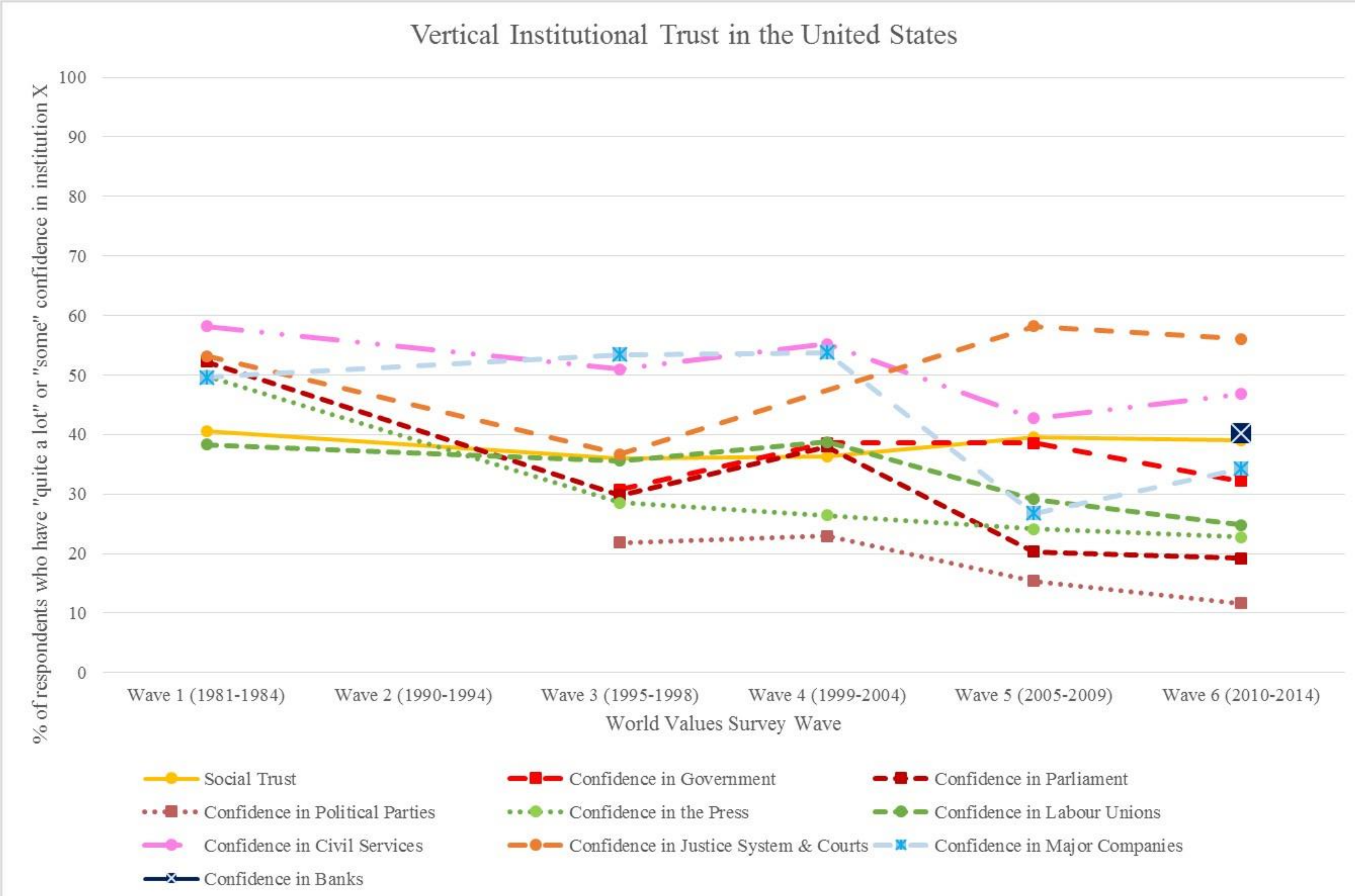

Table 8 - Vertical Institutional Trust in the United States from the aggregated World Values Survey. Social trust is in yellow. Confidence in partisan institutions are in red hues, confidence in power checking institutions are in green hues, confidence in order institutions in orange, and confidence in market institutions are in blue.

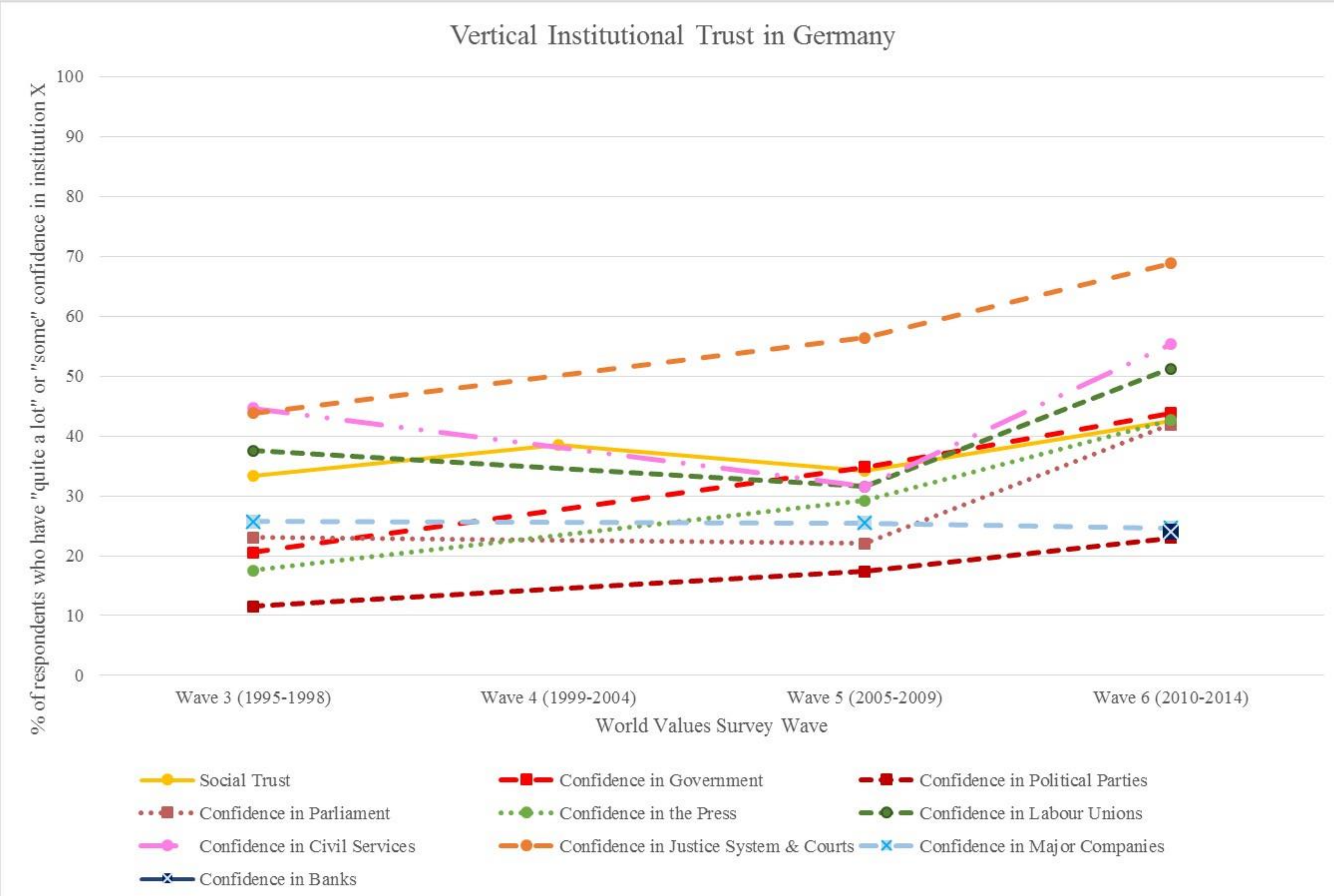

Table 9 - Vertical Institutional Trust in Japan from the aggregated World Values Survey. Social trust is in yellow. Confidence in partisan institutions are in red hues, confidence in power checking institutions are in green hues, confidence in order institutions in orange, and confidence in market institutions are in blue.

In Japan, confidence in partisan institutions is consistently much lower than in Germany or the US. While in these two countries' trust in partisan institutions has, at times, been higher than social trust, levels of partisan confidence in Japan never break this threshold. Though the level of confidence in US partisan institutions is now roughly equal to Japanese levels, these are also accompanied by declines in confidence in market and power-checking institutions. Even more unusual for Japan is the increase in the levels of trust for power-checking and market institutions. In the last WVS Wave 6, 73.54% of Japanese respondents said they had at least some confidence in the Press, 65.61% had confidence in Banks, and 54% had confidence in major companies. This deviates from the low levels of trust in market institutions in Germany and the US, where confidence is ranked alongside low levels of confidence in partisan institutions. Moreover, Japan's increased confidence in the press and in major firms from rather expected, stable trends appear to share a common point of departure after the first "Lost Decade". Furthermore, the rise of confidence in labour unions, which have historically played a limited role in the Japanese production regime, has also increased within the same period of time, while political authority remains weak (Witt, 2006). While the increased confidence in power-checking institutions follows German trends, though to a more dramatic degree, the increased trust in market institutions is unique to Japan.

The high confidence of Japanese respondents to market-oriented institutions may be indicative of those institutions' capacity for impartiality, fairness, and equalization, where other institutions may be ineffective or reversing these outcomes. High confidence in the press may also be related to declining confidence in partisan institutions. What is even more puzzling is that, with Japan's decade's long economic stagnation, market institutions are perceived to be more fair and impartial than partisan institutions. Socialization and welfare happen around the workplace more intensely in Japan than in other advanced capitalist democracies, which may contribute to increasing confidence in market institutions alongside the failure of partisan institutions (Witt, 2006). With uniquely consistent levels of horizontal generalized trust, the characteristics of Japan's institutional trust needs a more in-depth micro-level analysis as to the mechanisms behind the relationship between institutional arrangements and social capital in Japan.

How does Japan's political economy produce these social capital outcomes?

Distancing the state from the coordinated market economy

In the post-war period, policymakers sought to institutionalize a rather limited welfare state to focus on economic growth for the production of social welfare. For an economy devastated by conflict, it would have been difficult to establish a state system of redistribution without much wealth or productivity to begin with; this meant limiting revenue-raising capacities early on which restricted the fiscal capacity for the government to expand welfare provisions later, even during the most prosperous years of the postwar economic miracle (Kato, 2003). In lieu of the direct provision of welfare through government programs, the Japanese political economy features a highly interventionist state in the market (EstevezAbe, 2008). By acting instead to regulate domestic markets, finance infrastructure projects, and subsidize sometimes inefficient industries like agriculture, the Japanese government was able to shift the social welfare burden onto market institutions. This arrangement worked well through the period of high economic growth from the 1960s until the Asset Bubble Crash of the early 1990s. Through the 1990s the government was still largely removed from directly providing most of Japan's social welfare, and instead helped nudge the market to provide more distributive outcomes. Firms bore most of the burden, complementing the state in providing near universal coverage for programs such as healthcare and social insurance. Clientelistic relationships between major business and government bureaucrats and politicians developed over the miracle decades to facilitate this level of coordination. Uninterrupted growth ensured continued public support for the Liberal Democratic Party of Japan (LDP), and the development of policies that focused on economic growth rather than state redistribution (Kato & Rothstein, 2006).

As global liberalization pressures began to strip the government of its ability to regulate its way to political and economic stability, however, this unsustainable arrangement neared collapse (Rosenbluth & Thies, 2010). By the 1980s, the economic management of the dominant LDP in government came into question among the public. High profile special relationships between LDP politicians and industry leaders turned into long and drawn out scandals in the late 1980s, and with the defeat of the LDP in the

House of Councillors after the 1989 election, electoral reform came to the forefront of the political agenda (Shinoda, 2013). The aim of eliminating the old Single Non-Transferable Vote (SNTV) system was to end the clientelistic relationship between politicians and industry. These "pork barrel" relationships came at the cost of massive misallocations of capital and subsidies for inefficient industries while fuelling budget deficits, limiting consumer choice, and providing opportunities for corruption. Without the capacity for fiscal expansion, the government could no longer support this kind of market coordination without incurring already ballooning debts. Large, competitive firms were no longer willing to support an electoral system that did not help them. Alongside international market pressures, domestic trends like an aging population moving from rural regions to urban centres also shifted the policy preferences of the electorate from agricultural protections to concerns about prices and taxes (Rosenbluth & Thies, 2010). The change in 1994 to a parallel First Past the Post (FPTP) and Proportional Representation (PR) electoral system in the House of Representatives, with the majoritarian FPTP contesting more seats than the PR ballots, drastically altered the relationship between business and politics.

The end of SNTV also ended intraparty competition that, in turn, reduced the need for large sums of money to build personal support networks linked to business. The electoral reform also shifted the attention of politicians from special economic interests to the economic concerns of the average voter in the political centre (Rosenbluth & Thies, 2010). The regulation of Japan's political economy moved in a majoritarian direction that undermined cartels and renewed government priorities. The "Westminsterization" of Japanese politics also had an effect on finance: with fewer regulatory shelters provided by the government, banks were no longer afforded protective regulation, and domestic capital became more mobile (Estevez-Abe, 2008). With a lack of access to international financing, small- and medium-sized enterprises cut labour benefits and job security guarantees across the board, while major firms reinforced a dual system of core and peripheral workers. Though the directly equalizing outputs of partisan institutions in Japan were already relatively low due to a dependence on market-based welfare, the government's role in market intervention still built some trust through the visibility of its coordinating role in the market and the perception that it was delivering equalizing outcomes. The shift from SNTV to the FPTP-PR system in 1994 limited the state's role in redistribution even further by eroding its visible coordinating capacity in Japan's economy.

Lastly, the change in electoral rules changed the dynamics of how politicians interacted with their constituencies. The decline in strength of *koenkai* after their reorganization and redistricting as part of the 1994 package of electoral reform has decreased the visibility and presence of Diet members in the localities they represent. Laws preventing door-to-door canvassing and other campaign restrictions weakened the public visibility of other Diet member candidates in their own districts (Shinoda, 2013). Without regular interaction with these kinds of partisan institutions, citizens are more likely to feel alienated from the political system. The further centralization of party control within the LDP and other competitive political parties has also increasingly kept the policy process behind closed doors as executive governance has begun to dominate over the relatively open legislative processes of the previous decades. After 1994, it was becoming clearer to citizens that market institutions, not partisan institutions, were delivering impartial, distributive economic outcomes.

As trust in partisan institutions continued to decline after this critical juncture of electoral reform in 1994, trust in market institutions began to increase. Trust in power-checking institutions like the press also increased after the electoral reform as trust in the political system decreased. Trust in organized labour also increased modestly after decades of irrelevance and complacency, as their role in supporting adjustments in individual firms increased in significance. Overall, the government's distancing from the market and social welfare provision may have limited its capacity for generating social trust. Lastly, it should be noted that this does not necessarily mean the Japanese economy has transformed into an LME as a result of the weakening of the state's coordinating capacity; despite the Westminsterization of Japanese politics, the Japanese coordinated market economy still differs from Anglo-Saxon LMEs due to the intensity of its open cooperation between market actors, in contrast to the competition that has normalized in the Anglo-Saxon economies (Yamamura, 2003).

Dependence on market institutions for social welfare

The Japanese economy relies on market mechanisms to supply resource distribution more heavily than most other capitalist economies. The government's social protection system focuses on job creation and security through an active labour market policy, rather than paying direct social insurance benefits (Estevez-Abe, 2008). Instead, government spending concentrates on indirect intervention by increasing labour demand through infrastructure investment or increasing demand in other related industries such as resources and low-technology products. Firms are expected to take on the burden of structural adjustments, keeping surplus labour on the job through mechanisms such as universal pay cuts, reduced working hours, and transfers to lower-paying subsidiaries (Witt, 2008). Though an active labour market policy is not uncommon in the social policy mix of other CMEs, the Japanese economy relies on it far more as a form of social protection in lieu of direct social spending. Equalizing outcomes are therefore delivered directly by market institutions instead of by welfare institutions, but at the cost of market efficiency. A key point to the stubbornness of institutional change in the Japanese economy is the adjustment cost of social obligations that firms and industries maintain compared to other countries, where states, or the individual in the case in the United States, take up the burden of adjustment (Witt, 2006).

Though economic growth did take off in the mid-20th century, the intense market coordination behind Japan's success is described by Thies and Rosenbluth (2010) as the "dirty secret" behind the progress. Government policies that led to market dependence on social welfare tolerated and sometimes encouraged unsustainable clientelism and a tightly regulated domestic market. The decline of these clientelistic relationships between the government and producers after the 1994 electoral reforms has leant to an erosion of coordinating capacity between the state and the market. Though increasing demographic pressures have demanded the Japanese government to spend more than ever on public expenditures (OECD, 2014), the perception of indirect benefits or redistributive capacity of partisan institutions has declined. This has also influenced the decline in the economic efficacy of market institutions that struggle to adjust to market conditions without government protections. Paradoxically, however, this has not meant a weakening of employee-employer relations.

In Japan, individual association with major firms are a leading source of group identity (Witt, 2006). Consolidating this relationship between citizens and market institutions during the development of the Japanese economy were lifetime employment guarantees in major firms and seniority-based wages. This wage model worked to provide broad social protections, benefiting male breadwinners directly and reinforcing conservative familial structures as the basis for welfare. Though coordination of the economy worked similarly to the tripartism between the state, employers, and labour as in the Christian conservative democracies of continental Europe, labour's weakness in this relationship was not due to open suppression by the government or business, but due to the fact that those who were members of labour unions already enjoyed very generous benefits and good relations with employers (Schröder, 2013). For full-time, core employees of these firms, labour's exclusion from coordination was due to complacency, rather than outright hostility by managers. Under the strain of an aging population, limits of traditional mechanisms for maintaining surplus labour, and rapid technological change, Japan's formerly robust labour market had to make adjustments to continue providing market-based welfare. Contrary to the increasing animosity between labour and business found in LMEs, Japanese employers have actively sought to intensify cooperation with workers at the firm level to enable wage restructuring (Thelen & Kume, 2003).

Japanese executives in major firms see labour unions as integral partners to coordinate with for risk aversion and prioritizing firm survival (Witt, 2006). At the firm-level, however, instead of structural adjustments to cope with global liberalization, a trend of intensified traditional job protections has been promoted, which is linked to the growing exclusion of workers outside the in-group (Thelen & Kume, 2003). Though labour market dualism has pervaded the Japanese economy since its post-war establishment, this *uchi-soto* (inside-outside) distinction between labour market insiders and outsiders has only intensified as firms belay structural reforms for maintaining their social obligations. With pressure to reform rather unsustainable labour market structures, instead of eliminating long-term employment guarantees, firms and core workers have leaned towards wage structure reforms for labour market outsiders. Japanese workers have seen a shift from traditional seniority-based wages to dual performance-based wages for low skilled workers and skill-based wages for skilled, mostly young, workers. There is an overall trend towards a shrinking core of mostly skilled workers within individual firms, who continue to enjoy lifetime employment guarantees combined with a generous wage system against a growing peripheral and precarious workforce of low-skilled labour (Thelen & Kume, 2003).

It would be expected that the growth in precariously positioned workers would lessen the social capital-generating capacities of market institutions, as it would be assumed that those who can easily lose in the job market are less willing to engage in trust with others. With performance-based wages and weakened job security, firms have thus far been able to sustain their core workforce with peripheral workers taking on the brunt of liberalization burden. Firms have also remained competitive in attracting young, highly-skilled workers with these employment guarantees. Peripheral workers are typically on temporary or short-term contracts, are ineligible to participate in organized labour unions, and are low-skilled. The growing number of labour market outsiders not receiving the full benefits of market-based welfare would be expected to lessen cross-national social trust because of the growth of inequality and the intensification of the *uchi-soto* dynamic. As insiders and outsiders work side-by-side under very different conditions with different entitlements to benefits within the same company, it would be expected that bonding social capital between insiders and outsiders would be difficult to generate (Hommerich, 2015). Nevertheless, trust has remained stable in Japan for the past three decades, and institutional trust in market institutions has grown substantially.

What may be facilitating this rather inconsistent characteristic of social capital in the Japanese political economy is the belief that, with hard work and skill, there is still the possibility of finding success within the system. People who believe they live in a meritocratic society, where a middle-class position is within reach, are more inclined to trust fellow citizens (Larsen, 2013). Merit acts as a norm bridging trust relations between in-groups and out-groups with the prospect of out-group members becoming in-group members with enough work and determination. While the number of precariously positioned workers compared to the proportion of core employees is growing among firms, it is not necessarily the status of socioeconomic precarity that affects generalized trust; rather the perception that being in a precarious position is a temporary state. The precariously employed and performance-based wage earners have also grown in many other advanced capitalist economies and is not unique to Japan, however, the increase in precarious labour in the Japanese economy has not had the same effect of decreasing generalized trust compared to Continental European Countries. Theoretically, a market economy can deliver a meritocratic middle-class society if opportunities are more equally distributed from the beginning and if markets are perfect (Larsen, 2013). Though these conditions are never fulfilled and despite the increasing importance of skill in the labour market, in Japan there is still an incentivized perception that hard work can deliver on successful socioeconomic outcomes for the individual. Perceptions have an important influence on social capital; the most important aspect of social trust is that citizens believe they share the norm of not cheating each other (Larsen, 2013). For low-skilled workers, performance-based wages incentivize harder work, which can sometimes, if mismanaged as is often the case, actually lead low-skilled, high-performing workers to earn equal or greater benefits than highly-skilled, low-performing core employees (Thelen & Kume, 2003). Though this incentive perception can be unsustainable in the long-term, it has been working to the advantage of firms thus far, as they are able to maintain social solidarity and labour's complacency while cutting the cost of maintaining long-term employment guarantees and seniority wages. The influence of these wage structures, perceptions of meritocracy, and institutional confidence on generalized trust will be tested in a micro-level regression analysis in this paper.

Solidarity-Coordination Trade-off

Though the above analyses illustrate the mechanisms behind institutional trust and how this may have an influence on social trust in Japan, the consistency of Japanese social trust also needs some explanation. Among advanced capitalist democracies, the level of social trust has varied wildly. Though coordinated market capitalism has sometimes been conflated with socioeconomic equality, the two do not necessarily go together (Thelen, 2012); Japan's highly coordinated economy and Anglo-Saxon level equalizing outcomes attest to that. CMEs in most capitalist economies were not initially established to promote equality, but the association has had to do with variation over time in the scope of employer coordination and the purposes of coordination, whether to enable profit maximization or social welfare (Thelen, 2012). The extent of employer coordination depends on the political coalitions that established and developed these institutions and the dynamics of chance within them. With the rebuilding of the Japanese economy in the post-war era, the focus on active labour market policy and education led some observers to ascribe particularly Scandinavian characteristics to Japan in its welfare policy (Esping-Andersen, 1997). In other CMEs, it was not until labour movements began to form political coalitions that sought more equalizing benefits out of the state and the market that CMEs then began to deliver equalizing outcomes through the state and market. Despite the absence of organized labour, the political coalitions of the early LDP and *keidanren* planned to use an active labour market policy to facilitate a rapid economic growth strategy that relied on the market for equalization, firmly implanting labour's complacency to coordination primarily between the employers and the government. The coordinated market economy in Japan was established by these first coalitions with the intention of facilitating social solidarities, unlike in other CMEs where coordination was even established to sideline labour (Thelen, 2012).

The coalitional dynamics and complementarity that was purposed for Japan's market-based program of welfare may be behind the stability of social trust through market institutions. With liberalization pressures forcing structural changes in the political economies of advanced capitalist countries, there is a trade-off between maintaining equality and maintaining coordination between employers. For some economies, maintaining equality is prioritized over coordination, while for other types of economies there is a preference for maintaining coordination over equalization. Depending on the regime type, this can set a national economy on a particular trajectory of adjustment to these liberalization pressures. In maintaining social trust and a complacent labour partnership, Japan's liberalization trajectory has shifted along almost similar lines as the nationally coordinated Scandinavian economies, though with a slightly southward trajectory due to a decline in equality. Coordination in the Japanese economy has shifted the most in recent decades, from being central in the sharing of information and financing in the Japanese business, to a gradual retreat from the business world after the 1994 electoral reforms. The most notable effect of the erosion of strategic coordination has been the withdrawal of political donations from the *Keidenran* with the 2009 general election. Though there have been efforts to return political-business relations to their previous strength, it is clear that the coordinating capacity of the state has been diminished since the 1990s.

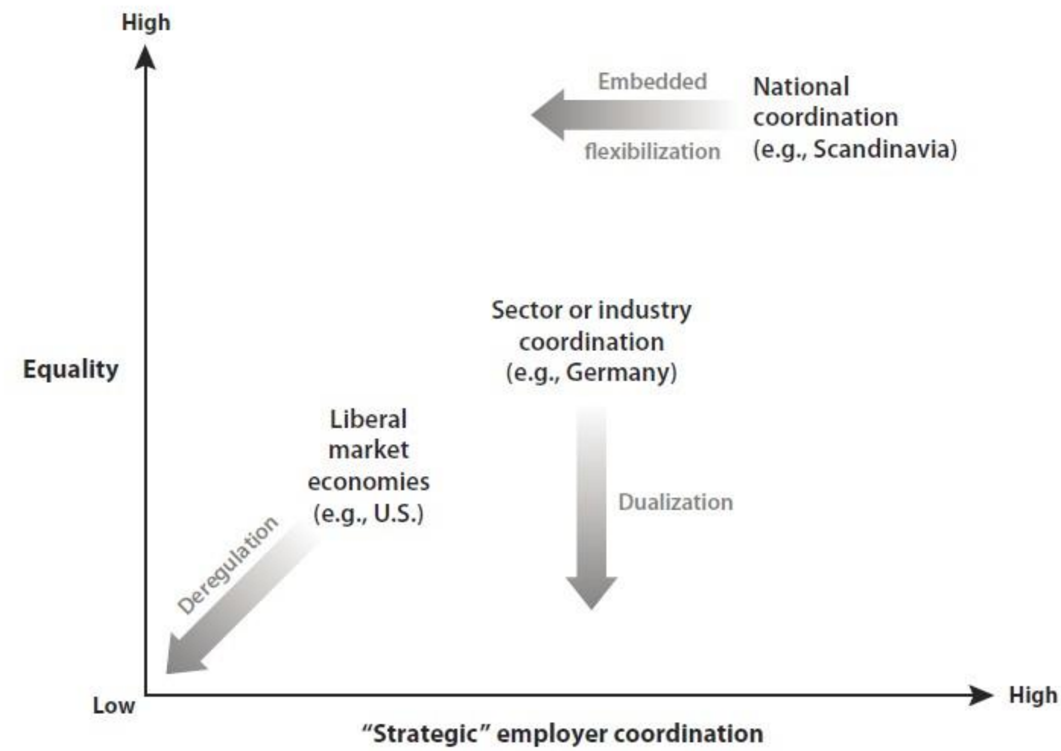

Figure 3 – Adopted from figure 4 in Thelen (2012). Three trajectories of liberalization of archetypical regimes. LMEs face deregulation, Conservative-CME regimes are pushed towards further dualization, and universal-CME regimes are propelled on a flexibilization trajectory (Thelen, 2012).

Coordination in the Japanese economy has instead focused on firm-level restructuring for the sake of maintaining generous benefits for labour market insiders, while maintaining a motivated peripheral work force. Some would argue that the intensified dualization of labour in Japan should have an effect on equality (Thelen, 2012), however, incentives in this dualization and the perception of a meritocratic economic system may be offsetting this effect. Figure 3 illustrates three trajectories of liberalization of archetypical political economy regimes. LMEs face deregulation, Conservative-CME regimes are pushed towards further dualizaiton, and universal-CME regimes are propelled on a flexibilization trajectory. When high-producing labour market outsiders are able to earn more than low-producing labour market insiders, dualization in Japan may not have as strong of an unequalizing effect as it does on employer coordination. As dualization becomes stronger, coordination has increased between workers and employers within firms instead of between them. The flexibilization of Japanese labour market policies has relatively maintained social solidarities, while the strength of market coordination has been downloaded to the firm-level. Though inequality has gradually increased in Japan, like in most advanced capitalist democracies, high coordination among businesses established alongside principles of social obligation has had the effect of maintaining stable levels of social trust embedded in market institutions, which provide redistributive outcomes in the Japanese economy.

Though Thelen (2012) comes to the conclusion that intensified dualization in the Japanese CME has set the country on a similar trajectory as Germany (towards widening inequality to preserve coordination) the case of Japan is more nuanced. While dualization has lent to growing inequalities, social cohesion has been maintained by broadly perceived meritocracy: the public perception that hard work brings success. The prospect of equalizing social mobility enables strong social cohesion, though paradoxically it can also entrench status positions by enabling complacency with actors or even the preservation of the un-equalizing institutions that facilitate this perception. Another problem with this assertion is that Japan's positioning in comparison to other types of political economies is placed quite a distance from the German model. With a highly coordinated market economy and a highly commodified welfare system, it may not be possible for Japan to increase inequality for the purposes of facilitating strategic employer coordination, or face rather extreme levels of poverty. Furthermore, it is difficult to place Japan on the same trajectory as Germany because strategic employer coordination in Japan has actually intensified at the firm-level. While the strength of Germany's industry-wide coordination between employers has been preserved (Streeck, 2008), Japan's micro-level coordination between firms and workers has grown in order to enact structural wage reforms. This kind of market-based "flexicurity" sets it on a similar trajectory as the universal-CMEs, however, due to the lack of public social safety net, there are some downsides for equalization. Japan's liberalization trajectory, therefore, starts from a position of already relatively low equality and high coordination, and points in a direction middling between LME deregulation and flexibilization.

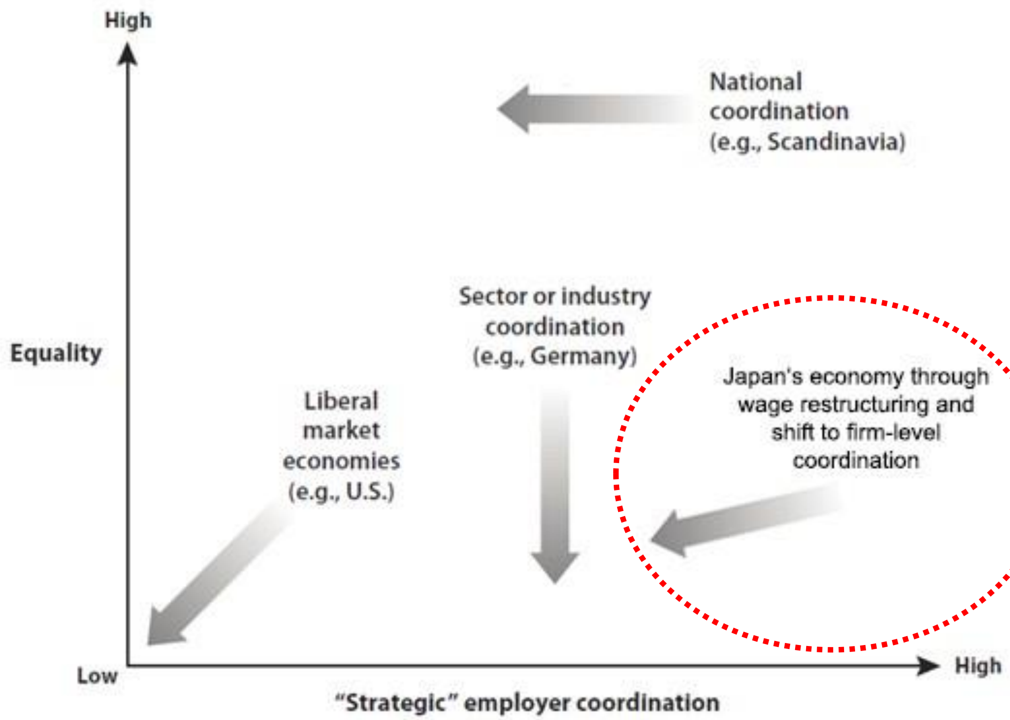

Figure 4 – Original figure is adopted from figure 4 in Thelen (2012) with the addition of the circled trajectory by the author to the original figure. Mapping the position and trajectory of the Japanese economy in relation to other advanced, capitalist democracies (Thelen, 2012). The originating point and trajectory of the Japanese economy derived from previously mapped position (Schröder, 2013).

Micro-Level Regression Analysis

For a closer analysis of the mechanisms between institutions of the political economy and social capital in Japan, the influence of institutional trust, personal economic perceptions, and other typical demographic variables such as age and education, will be tested against the dependent variable of social trust. If institutional arrangements are to have an effect on social capital, higher trust institutions should have a significant influence on generalized trust, and lower trust institutions would have little to no significant effect. How these institutions shape economic perceptions are also captured by variables related to opinions on socioeconomic inequality, meritocracy, and feeling of job security. To control, the typical correlation between membership associations and social capital indicators will also be included in the models. Data from the World Values Survey, Wave 6, collected from 2010 to 2014 will be used comparing Japan, Germany, and the United States due to the consistency in survey methodology between these cases, the timeliness of the latest WVS Wave 6, and the adequate sample

Micro-Level Logistic Regression Analysis on Determinants of Generalized Trust

DepVar - Social Trust **1 = most people can be trusted; 0 = you can't be too careful**	**Japan**	**USA**	**Germany**	**Japanese General Social Survey (2008, 2010)**
Age	1.00 (.004)	1.01*** (.003)	0.99* (.003)	1.01* (.007)
Education	1.14*** (.036)	1.29*** (.058)	1.09*** (.028)	1.41*** (.140)
Respondent's income decile	1.05* (.020)	1.12*** (.031)	1.12*** (.037)	1.09** (.018)
Confidence: Major Companies	1.35** (.152)	1.53*** (.157)	1.16 (.140)	2.79*** (.468)
Confidence: Parliament / Trust in Ministries and Government[a]	1.10 (.127)	1.76*** (.180)	1.47*** (.160)	2.45*** (.442)
Active Membership in a Voluntary Association	1.41** (.158)	1.31* (.137)	1.29* (.138)	1.47* (.245)
Incomes should be made more equal	0.88 (.094)	1.03 (.100)	1.25 (.163)	1.07 (.082)
Hard work brings success	1.50*** (.173)	1.23 (.147)	1.18 (1.31)	1.65* (.354)
I feel that my job is secure	1.38* (.180)	1.70*** (.183)	1.85*** (.206)	1.63* (.333)
Constant	0.12*** (.037)	0.01*** (.004)	0.15*** (.042)	0.05*** (.028)
Pseudo R-Sq	0.0411	0.0867	0.0585	0.1488
N	1641	2099	1649	908

Table 10 - Micro-level logistic regression analysis of individual feelings and opinions on institutional trust, typical demographic variables, and feelings of economic security and well-being. The dependent variable is a coded binary variable indicating respondents who feel that 'Most people can be trusted'. Data comparing countries are taken from the World Values Survey, Wave 6 (2010-2014). To reinforce this analysis, an aggregated sample from the Japanese General Social Survey 2008 and 2010 is similarly modeled. Odds ratios are presented with standard errors in parentheses below.
** = P ≤ 0.05; ** = P ≤ 0.01; *** = P ≤ 0.001. [a] To apply JGSS data to this model, a related but different variable "Trust in Ministries and Government" was used to approximate trust in partisan institutions.*

sizes in these three case countries. To supplement the findings from the WVS, data from the Japanese General Social Survey will also be modeled similarly and run parallel to the WVS results. Datasets from the 2008 and 2010 JGSS have been combined to provide a robust sample size.

The above model is based from Rothstein & Stolle's (2008) individual-level multivariate analysis that tests whether order institutions were an important factor influencing generalized trust. It builds on the previous test to determine the influence that institutional confidence and feelings of personal and social economic well-being have on generalized trust. To show the variance in institutional experience between countries, Japan is also compared to other regime archetypes: the United States and Germany. These cross-national comparisons are regressed using the WVS, Wave 6, for consistency. Though the German General Social Survey (ALLBUS) and the US General Social Survey (USGSS) also provide more detailed datasets and larger cross-national sample sizes, the inconsistencies in the questions and values used negate their effective use for comparison of particular independent variables. However, for future analysis of this model, it may be useful to use the ALLBUS and USGSS to reinforce cross-national variations found through the WVS.

For the varieties of institutional trust, 'Confidence in national parliament' is used to indicate attitudes towards partisan institutions, and 'Confidence in Major Companies' is used to indicate trust towards market institutions coded as dummy variables. The variable 'Hard work brings success' is used as an indicator for respondents who believe their political and economic system is a meritocracy that allows for socioeconomic mobility or stability of the middle-class for the individual and other members of society. The variance in this perception between countries would indicate whether the belief that society is meritocratic is influential to generalized trust. Variables indicating feelings of job security are also included to illustrate the variance of confidence regarding personal economic security and its effect on generalized trust. It would be expected that, with a dramatic structural change to job security policies, feelings that one's job is secure may be less influential on generalized trust. The variable 'Incomes should be more equal' is included in the model to demonstrate the relevance that feelings towards income inequality is not very influential on generalized trust.

It should be noted that omitted from this model is individual job status due to the unreliability and vagueness of how this measure is collected in these datasets. Variables relating to job status do not pick up on the actual precarity of employment, as full-time workers can be just as precariously employed as part-time workers in the dualist system. Though it would have been useful to analyze how influential job status could be on generalized trust, there is no survey available that observes these particular nuances. Though an interaction effect could have been observed between feelings of job security and current data on job status, this would only assume precarity rather than actually register respondents as precariously employed.

Varieties of Institutional Trust

With high trust in market institutions in Japan and a reliance on market-based outcomes, confidence in major companies is influential to generalized trust in both the WVS and JGSS. The odds that respondents who trust major companies in Japan generally trust most people is 35% higher than respondents that don't trust major companies. Trust in major companies is also positively influential on social trust in the United States, as social welfare in the model liberal-LME also depends heavily on market mechanisms as opposed to the welfare state. In Germany, where the market is not the main source of economic redistribution and where occupational segmentation does not contribute to cross-class solidarities, trust in major companies does not have a significant effect. For the other countries compared in this model with the WVS, Japan is the only country where confidence in the legislature is not influential on social trust. With the partisan institutions perceived to be removed from equalizing economic outcomes, confidence in parliament does not appear to have a significant effect on social trust. In the United States, means-tested social programs like Medicaid and meager universal programs like the American social insurance scheme still have a visible redistributive effect that is provided by partisan institutions. This relationship is also strong in Germany, where social welfare is much more reliant on state policies. The discrepancy in the Japanese result from the JGSS may be due to the lack of relevant survey questions related to partisan institutions. The closest survey questions related to trust in partisan institutions in the JGSS asks respondents about their "trust in ministries and government" which is broad and encompassing of a range of other roles, policies, and equalizing outcomes. Without a functionally equivalent question in the JGSS, the significance of this variable could be written excluded from the model, but institutional trust in partisan institutions is still included in this multivariate model for consistency.

Individual Economic Perceptions

The belief in an effective meritocracy stands out in Japan compared to other countries. Highly significant, there is a strong positive relationship between belief that the system still allows hard working people to find success and social trust. Though the significance of the results between the JGSS and WVS varies, they both point to the significance of meritocratic perceptions on social trust in Japan. In the US and Germany, where there is more disenchantment with the possibility of socioeconomic mobility, this belief does not hold a significant influence on social trust. For perceptions in job security, however, there appears to be variance in significance and effect between the three countries. Feeling job security in Germany and the United States has a greater positive effect on generalized trust than job security in Japan. Due to the growing precarity of work and an increasing dependence on market-based welfare, the effect job security has on generalized trust in Japan is weaker and slightly less significant. Also of note is the insignificance of the belief that society should be more equal in each country model: this implies the importance of meritocratic perceptions on social trust, as varied levels of income provide different incentives for work. The results in the JGSS confirm the results obtained from the WVS. In all countries, the opinion that society should be equal does not appear to have any effect whatsoever on generalized trust. The implication of this empirical analysis is that the potentially negative impact of intensified labour dualization in Japan on social trust has been offset by incentives. The strength of the perception that labour market outsiders can also work their way into the middle-class mainstream has helped firms introduce performance-based wages and insecure employment with relative complacency. The question remains whether generalized trust will remain stable in the next decade or so as dualization intensifies and consolidates in the Japanese labour market.

Conclusion: Re-allocating Social Capital in Japan

While it is clear that equalization and redistribution do influence the generation of social capital, it is important to analyze the particularities of the institutional arrangements and mechanisms that foster socialized trust. Institutions do matter for generalized trust and how they are designed is highly influential on the variance in social capital. In Japan, there are high levels of social capital indicators in market intuitions as economic allocation and social welfare is based mostly in these types of institutions. This is unique compared to other capitalist democracies where the state plays more of a role in facilitating equalizing outcomes. Japan's active labour market policy as social policy removed the state from directly providing welfare. This cognitive distance between the state and well-being for citizens influences the perception that market institutions are better at delivering welfare outcomes than the state. Despite economic and demographic crises affecting the integrity of the Japanese economy, citizens trust market institutions more highly than partisan institutions, as they are less likely to interact with state organizations when the workplace provides most of the social services and cohesive solidarities. Still, institutional arrangements cannot be given all the credit for the characteristics of Japan's social capital, though it does have a substantial influence. Demographic and geographic factors such as a very large proportion of late adult and elderly citizens, ethnic and religious homogeneity, language, country size, life satisfaction, and conformity norms can also influence cross-national social trust. However, in order for these society-centered sources of social capital to influence social trust, they to be embedded and linked to formal institutions (Rothstein & Stolle, 2008). This nuanced analysis illustrates some of the mechanisms behind the institutional generation of social capital through a complementary Varieties of Capitalism and Welfare Worlds framework, and could also be applied to other national or sub-regional level cases.

That social capital is concentrated in market institutions over political institutions is also a matter of concern for policymakers. High trust in major companies has lowered adjustment costs, but have expended much social capital and have reformed the system that could potentially erode trust. How long can market institutions generate social capital until perceptions of meritocracy start changing, when intensified dualization makes it increasingly difficult for peripheral workers to become insiders? Will dualization continue its intensification, will it stabilize, or will it lead to more universal retrenchment of secure employment? With the growing mismatch of high-performing but low-skilled workers who are becoming increasingly foundational to Japanese firms, managers may need to impose incentivizing performance-based wages on high-skilled, low performing core workers. The lack of trust in political institutions has also meant some of the lowest voter turnout among OECD countries in recent years, with the 2014 General Election registering the lowest voter turnout ever recorded at 52.66%. Turnout was low despite the pressing economic issues such as the consumption tax and the continuation of Abenomics policies that surrounded the 2014 election. Difficulties in implementing new consumption taxes may also be attributed to comparatively low trust in political institutions. It is difficult for the government to make the case that an increase in revenue capacity for the state will result in equalizing returns for the public when there are little welfare programs run by the government to show for it. Disillusionment in partisan institutions has rendered them ineffective, and democratic deficits collect into a democratic debt as reform of political institutions stagnates and Diet Members become less representative of the policy preferences of the electorate via dramatically declining election turnouts. However, with the decline of successful economic outcomes from market institutions, increasing inequality, and demographic pressures reaching critical breaking points, the state ought to implement corrective measures, despite the public's lack of faith. To re-invigorate Japanese democracy, it may be necessary to reallocate social capital from market institutions to political ones and to generate new social capital with the introduction of new, government run social welfare schemes.

References

Ahn, T.K. & Ostrom, Elinor. 'Social Capital and Collective Action,' In *The Handbook of Social Capital*, (eds.) D. Castiglione, J. Deth, & G. Wolleb, (New York: Oxford University Press, 2008), pp. 17-35.

Brewer, K., Oh, H., & Sharma, S. "'Crowding In' or 'Crowding Out'? An Examination of the Impact of the Welfare State on Generalized Trust, vol. 23, (2014), pp. 61-68.

Eek, Daniel & Rothstein, Bo. “Exploring a Causal Relationship between Vertical and Horizontal Trust,” *QOG Working Paper Series 2005:4*, Göteborg University.

Esping-Andersen, Gøsta. “Hybrid or Unique? The Japanese Welfare State between Europe and America,” In *Journal of European Social Policy*, vol. 7, no.3, (August 1997), pp. 179-789).

Esping-Andersen, Gøsta. *The Three Worlds of Welfare Capitalism*, (Cambridge, Massachusetts: Polity Press, 1990).

Estevez-Abe, Margarita. *Welfare and Capitalism in Postwar Japan: Party Bureaucracy, and Business*, (Cambridge, UK: Cambridge University Press, 2008).

Gerschenkron, Alexander. “Economic Backwardness in Historical Perspective.” In *Economic Backwardness in Historical Perspective*, (ed.) Alexander Gerschenkron, (Cambridge, MA: Harvard University Press, 1962), pp. 5-30.

Haddow, Rodney. “How Can Comparative Political Economy Explain Variable Change? Lessons for, and from, Canada,” In *The Comparative Turn in Canadian Political Science*, (eds.) L. White, R. Simeon, R. Vipond, & J. Wallner, (Vancouver: University of British Columbia Press, 2008), pp. 221-237.

Kato, Junko. *Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion*, (New York: Cambridge University Press, 2003).

Kato, Junko & Rothstein, Bo. “Government Partisanship and Managing the Economy: Japan and Sweden in Comparative Perspective.” *Governance: An International Journal of Policy, Administration, and Institutions*, vol. 19, no. 1, (January 2006), pp. 75-97.

Kasza, Gregory. *One World of Welfare: Japan in Comparative Perspective*, (Ithaca, New York: Cornell University Press, 2006).

Hall, Peter A. & Soskice, David. “An Introduction to Varieties of Capitalism,” in *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (eds.) P. Hall & D. Soskice, (New York: Oxford University Press, 2001).

Hommerich, Carola. “Feeling Disconnected: Exploring the Relationship Between Different Forms of Social Capital and Engagement in Japan.” *Voluntas*, vol. 26, (2015), pp. 45-68.

Inoguchi, Takashi. “Broadening the Basis of Social Capital in Japan.” In *Democracies in Flux: The Evolution of Social Capital in Contemporary Society*, (ed.) Putnam, R., (Oxford: Oxford University Press, 2002), pp. 189-244.

Kumlin, Staffan & Rothstein, Bo. “Making and Breaking Social Capital: The Impact of Welfare-State Institutions,” *Comparative Political Studies*, vol. 38, no. 4, (2005), pp. 339-365.

Larsen, Christian. *The Rise and Fall of Social Cohesion: The Construction and Deconstruction of Social Trust in the US, UK, Sweden, and Denmark*, (Oxford, UK: Oxford University Press, 2013).

Milly, Deborah. *Poverty, Equality, and Growth: The Politics of Economic Need in Postwar Japan*, (Cambridge, MA: Harvard University Press, 1999).

Offe, Claus & Fuchs, Susanne. "A Decline of Social Capital? The German Case,' In *Democracies in Flux: The Evolution of Social Capital in Contemporary Society*, (ed.) Putnam, R., (Oxford: Oxford University Press, 2002), pp. 189-244.

Putnam, Robert. *Making Democracy Work: Civic Tradition in Modern Italy*, (Princeton, New Jersey: Princeton University Press, 1993), New Jersey.

Putnam, Robert & Goss, Kristin. "Introduction," In *Democracies in Flux: The Evolution of Social Capital in Contemporary Society*, (ed.) Putnam, R., (Oxford: Oxford University Press, 2002), pp. 3-19.

Rosenbluth, Frances & Thies, Michael. *Japan Transformed: Political Change and Economic Restructuring*, (Princeton, New Jersey: Princeton University Press, 2010).

Rothstein, Bo & Stolle, Dietland. "The State and Social Capital: An Institutional Theory of Generalized Trust," *Comparative Politics*, vol. 40, no. 4, (2008), pp. 441-459.

Schröder, Martin. *Integrating Varieties of Capitalism and Welfare State Research: A Unified Typology of Capitalisms*, (New York: Palgrave Macmillan, 2013).

Schoppa, Leonard. *Race for the Exits: The Unraveling of Japan's System of Social Protection*, (Ithaca, New York: Cornell University Press, 2006).

Shinoda, Tomohito. *Contemporary Japanese Politics: Institutional Changes and Power Shifts*, (New York: Columbia University Press, 2013).

Streeck, Wolfgang. *Re-forming Capitalism: Institutional Change in the German Political Economy*, (Cambridge, UK: Cambridge University Press, 2009).

Thelen, Kathleen. "Varieties of Capitalism: Trajectories of Liberalization and the New Politics of Social Solidarity," In *Annual Review of Political Science*, vol. 14, (2012), pp. 137-159.

Thelen, Kathleen & Kume, Ikuo. "The Future of Nationally Embedded Capitalism: Industrial Relations in Germany and Japan," In *The End of Diversity? Prospects for German and Japanese Capitalism*, (eds.) K. Yamamura & W. Streeck, (Ithaca, New York: Cornell University Press, 2003), pp. 183-211.

Uslaner, Eric. *The Moral Foundations of Trust*, (New York: Cambridge University Press, 2002).

Witt, Michael. *Changing Japanese Capitalism: Societal Coordination and Institutional Adjustment*, (New York: Cambridge University Press, 2006).

Yamamura, Kozo & Streeck, Wolfgang. "Introduction: Convergence or Diversity? Stability and Change in German and Japanese Capitalism," In *The End of Diversity? Prospects for German and*

Japanese Capitalism, (eds.) K. Yamamura & W. Streeck, (Ithaca, New York: Cornell University Press, 2003), pp. 1-50.

___. *Japanese General Social Survey*, JGSS Research Center, Appended in STATA 13 (2008-2010).

___. *OECD Health Statistics 2014: How Does Japan Compare?*, OECD, (2014), Access: http://www.oecd.org/els/health-systems/Briefing-Note-JAPAN-2014.pdf.

___. *OECD.StatExtracts: Social Protection and Well-being, Income Distribution and Poverty*, OECD, (2015), Access: http://stats.oecd.org/.

___. *Social Expenditure Update*, OECD, (2014), Access: http://www.oecd.org/els/soc/OECD2014-Social Expenditure-Update-Nov2014-8pages.pdf.

___. *World Values Survey*, *Aggregated Data Set*, *Waves 1-6*, World Values Survey Association, (2014).