

Trust, Trade, and Institutions

Social Capital and Trade Liberalization Attitudes in Japan



Relationship Between Social Capital and Trade

Spilker, G., Schaffer, L. & Bernauer, T. "Does Social Capital Increase Public Support for Economic Globalization?" In *European Journal of Political Research* vol. 51, (2012), pp. 756-784.

Appendix Table A. Robustness check using WVS 1995 data (Logit results)

| | Positive view of trade liberalisation |
|-------------------------------|---------------------------------------|
| Generalised trust | 0.43*** (0.063) |
| Trust in government | 0.14** (0.070) |
| Trust in parliament | 0.00 (0.061) |
| Male | 0.15*** (0.046) |
| Education | 0.12*** (0.019) |
| Right-wing political attitude | -0.01 (0.013) |
| Age | -0.01*** (0.002) |
| Income | 0.04* (0.023) |
| Unemployed | 0.02 (0.089) |
| Retired | -0.06 (0.091) |
| Agricultural sector | 0.04 (0.152) |
| Constant | -1.33*** (0.215) |
| Observations | 43,110 |

Notes: The World Value Survey provides data on 43,110 individuals' preferences towards trade liberalisation. Interviews took place in 55 countries during 1994–1999. Robust standard errors in parentheses clustered by country. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$.

What is 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*
 - *“social glue”*
- *Associated with collective action, good governance, robust economy, democratic efficiency*
 - *In its absence, associated with inefficient institutions*
- *“Trust” as the primary indicator of social capital*
 - *Generalized Trust & Institutional Trust*

Trust and Institutions

- *Institutions, formal and informal, facilitate trust, create norms/rules, enforce against bad behaviour*
- *How institutions are designed affects how they generate trust (Rothstein & Stolle, 2008; Kumlin & Rothstein, 2005)*
 - *Impartial, fair, equalizing >>> welfare*
- *How they are arranged can also affect how they deliver welfare outcomes to generate trust*

Varieties of Institutions

- *Institutions can be based in the state, market, civil society*

| Partisan Institutions | Power-Checking Institutions | Order Institutions | Market Institutions |
|--|---|--|---|
| <ul style="list-style-type: none">• Government• Political Parties• Parliament• Civil Services | <ul style="list-style-type: none">• Press• Labour Unions | <ul style="list-style-type: none">• Justice System & Courts• Police | <ul style="list-style-type: none">• Major Companies• Banks |

- *The way they interact with each other to provide social welfare can influence trust*
 - *Varieties of Capitalism & Welfare Capitalism Worlds*

Institutions and Trade

- *Domestic institutions change because of globalization*
- *Pressures from institutional change affect how citizens perceive trade liberalization*
- *Putnam (1988) – Two-Level Game Theory*
 - *Level II Institutions need compliant constituents to provide large win-sets for international-level negotiators*

What are Large Win-Sets? (Putnam 1988)

- *“The set of all possible Level I agreements that would “win” – that is, gain the necessary majority among the constituents – when simply voted up or down”*
 - *Larger win-sets make Level I (intl level) agreement more likely*
 - *Size of respective Level II win-sets affect distribution of joint gains from intl bargain*
- *Trust establishes large win-sets by giving intl level negotiators “more autonomy”*

Why analyze this in the context of Japan?

- *Contentious domestic politics of TPP, Japan-China-RoK FTA*
- *Do you support Japan's participation in TPP?*

| | |
|-----|-----|
| Yes | 52% |
| No | 25% |



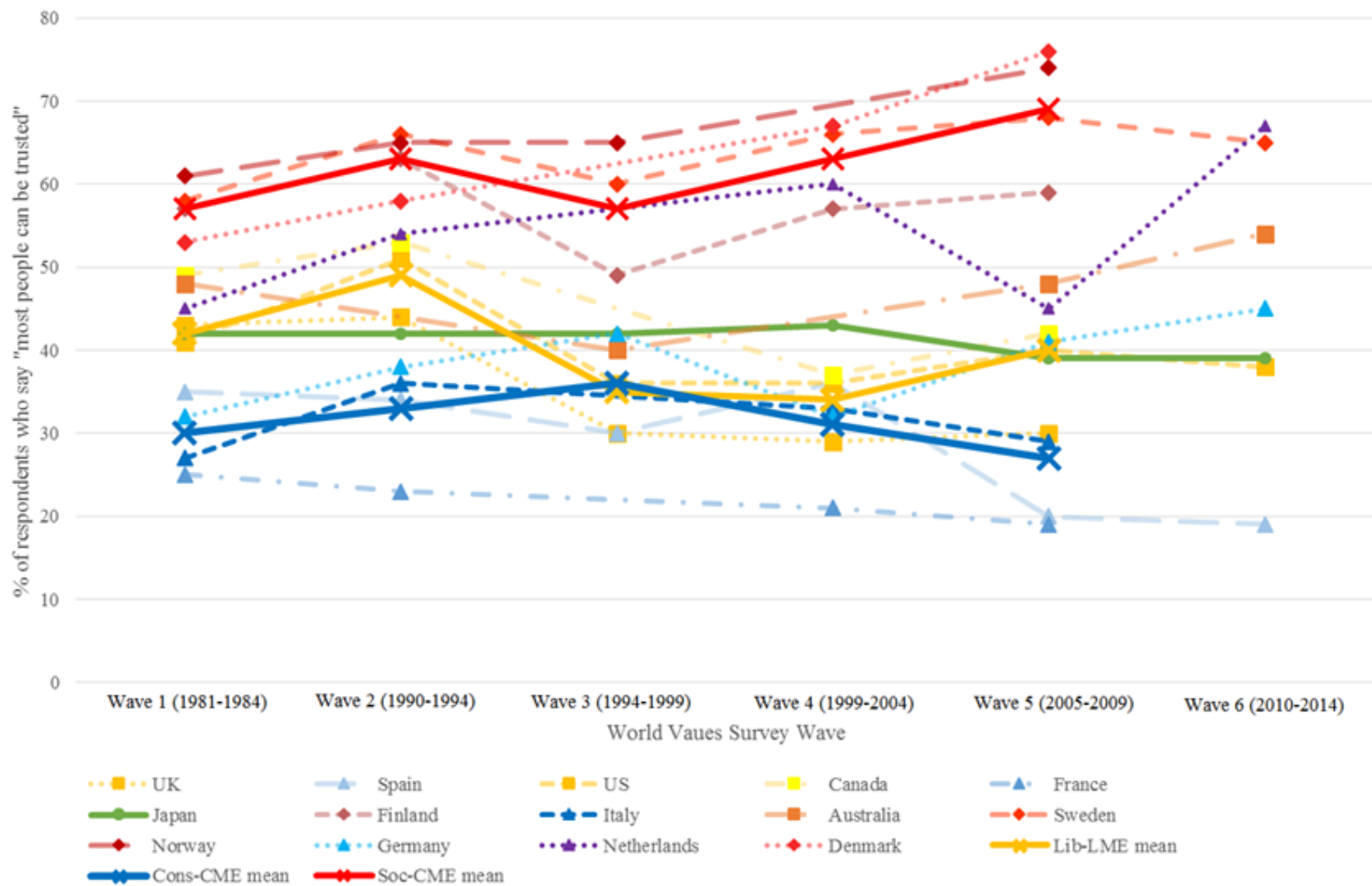
- *In a late September nationwide poll by the Japan Association of Public Opinion Research, 86 percent of respondents said that the government's explanations are insufficient and 55 percent said that the government is hurrying too fast to conclude the talks.”*

Why analyze this in the context of Japan?

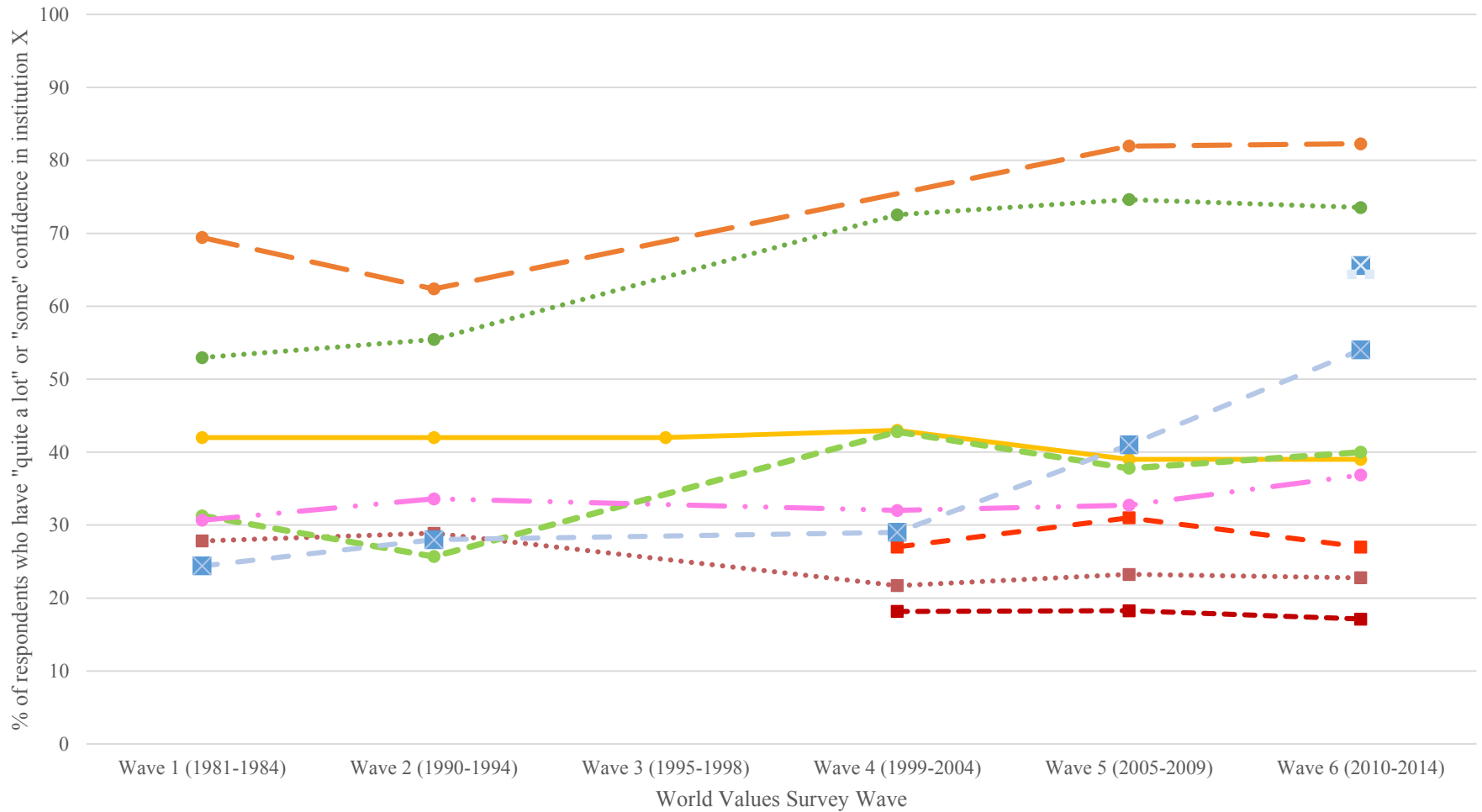
- *“Japan is often cited as a country rich in social capital.” - (Inoguchi, 2002)*
- *Unique Institutional Arrangements*
 - *“Hybrid” – CME/liberal welfare state*



Social Trust in Advanced Capitalist Democracies



Vertical Institutional Trust in Japan, World Values Survey



- Social Trust
- Confidence in Government
- Confidence in Political Parties
- Confidence in Parliament
- Confidence in the Press
- Confidence in Labour Unions
- Confidence in Civil Services
- Confidence in Justice System & Courts
- Confidence in Major Companies
- Confidence in Banks

Institutional Arrangements of Japan's Political Economy

- *Why are partisan institutions not trusted?*
 - *Partisan institutions and indirect provision of welfare*
 - *1960 "Income Doubling Plan"*
 - *Labour market-based and familial social policy*
 - *Commodification of social welfare*
 - *Clientelism – Protectionism – Indirect Intervention*
 - *Globalization and the end of bureaucratic guidance*
 - *Electoral reform, 1994*
 - *Public disenchantment*

Institutional Arrangements of Japan's Political Economy

- *Why are market institutions trusted?*
 - *More direct provision of social welfare via markets*
 - *Individual association with major firms leading source of group identity*
 - *Lifetime employment and seniority wages*
 - *Firm-level coordination with unions*
 - *Globalization has weakened core labour-market insiders, but perceptions of social protection by large firms remain*

Institutional Arrangements of Japan's Political Economy

- *News media in Japan*
 - *World's largest circulation of national dailies in Japan*
 - *High trust for newspapers, may be due to aging population*
 - *Public dissatisfaction with politics echoed and amplified by the press*
 - *Strength of trust in press can have direct effect on perceptions towards trade*
 - *Largely shut out of TPP negotiations; unfavourable editorials stirring cynicism*

How does (mis)trust in these institutions affect trade attitudes?

- *Confidence that institution will maintain or improve delivery of welfare outcomes despite free trade*
 - *Guaranteed minimizing negative externalities*
 - *Producer anxiety, “sympathy” for precariat*
- *Capacity to steer public opinion – national identity (Canada), the press*
- *Mistrust can politically mobilize organized, concentrated groups*

Empirical Analysis

Dependent Variable

- *Q153 – Do you agree or disagree with the following statement: “Foreign goods are hurting the local community”*
 - *1 = strongly agree; 2 = agree; 3 = disagree; 4 = strongly disagree*
- *Dummy Var: indicator of positive attitude to trade liberalization*
 - *1 = (3) disagree + (4) strongly disagree*
 - *0 = (2) agree + (1) strongly agree*

Empirical Analysis

Primary Independent Variables for Investigation

- *Trust in Institutions*
 - 1 = A Great Deal of Trust; 2 = Quite a Lot of Trust; 3 = Not Very Much Trust; 4 = None At all
- *Dummy Var Recode:*
1 = 1|2; 0 = 3|4

Partisan Institution

- Q9 - *Trust in Government*

Order Institution

- Q8 – *Trust in the Courts*

Power-Checking Institution

- Q16 – *Trust in Newspapers*

Empirical Analysis

Primary Independent Variables for Investigation

- *No “trust in market institutions” variable*
- *Q3 – What do you think will be the state of our country’s economic condition a few years from now?*
 - *1 = much better; 2 = a little better; 3 = about the same; 4 = a little worse; 5 = much worse*
 - *Recode 1 = 1 | 2 | 3; 0 = 4 | 5*

Empirical Analysis

Producer Anxiety

- *Anxiety about economic security of precarious workers has strong effects on attitudes towards furthering trade liberalization (Scheve & Slaughter, 2004)*
 - *Effect on actual precariat and “sympathy” for precarious workers (Naoi & Kume, 2011)*
- *‘Q152 - Do you agree or disagree with the following statement: “We should protect our farmers and workers by limiting the import of foreign goods.”*

Empirical Analysis

Farmers

- *Dummy variable for respondents whose occupation is listed as “farmer”*
- *Strong opposition to FTAs*
- *Formerly politically aligned with LDP; today, staunch opposition*
- *Testing whether farmers’ mistrust of partisan institutions has significant effect*

Empirical Analysis

Model 1 - *Institutional trust variables and generalized trust variable against dependent trade variable*

Model 2 – *Control variables are added; include demographic vars age and sex, factor endowments education, household income, class – also include membership in voluntary association*

Model 3 – *Addition of “producer anxiety” variable*

Model 4 – *Interaction between partisan trust and farmer dummy variables*

Table 2

Institutional Trust and Trade Preferences Model (Asian Barometer III, 2010 data set)

| DepVar – Trade Liberalization Preferences 1 = positive, 0 = negative | Model 1 |
|--|---------------------|
| Generalized Trust | 1.149 (0.120) |
| <u>Institutional Trust</u> | |
| Partisan | 0.915 (0.144) |
| Order | 1.325** (0.144) |
| Power-Checking | 0.634*** (0.071) |
| Market | 1.460*** (0.159) |
| Constant | 1.179 (0.140) |
| Pseudo R ² | 0.0147 |
| N | 1651 |

Table 2
 Institutional Trust and Trade Preferences Model (Asian Barometer III, 2010 data set)

| DepVar – Trade Liberalization Preferences 1 = positive, 0 = negative | | Model 2 | |
|--|---------------------|-----------------------|-------------------|
| Generalized Trust | 1.118 (0.121) | | |
| <u>Institutional Trust</u> | | | |
| Partisan | 0.968 (0.157) | | |
| Order | 1.188 (0.135) | | |
| Power-Checking | 0.698** (0.081) | | |
| Market | 1.512*** (0.169) | | |
| <u>Control Variables</u> | | | |
| Age | 0.992* (0.003) | | |
| Male | 1.166 (0.123) | | |
| Years of Education | 1.110*** (0.026) | | |
| Household Income | 1.048 (0.040) | | |
| Perceived Social Class | 0.997 (0.004) | Constant | 0.398* (0.170) |
| Membership in a Voluntary Association | 0.987 (0.134) | Pseudo R ² | 0.0388 |
| | | N | 1636 |

Table 2
 Institutional Trust and Trade Preferences Model (Asian Barometer III, 2010 data set)

| DepVar – Trade Liberalization Preferences 1 = positive, 0 = negative | | Model 3 | |
|--|---------------------|-----------------------|---------------------|
| Generalized Trust | 1.190 (0.926) | | |
| <u>Institutional Trust</u> | | | |
| Partisan | 0.926 (0.161) | | |
| Order | 1.182 (0.144) | | |
| Power-Checking | 0.735** (0.092) | | |
| Market | 1.477*** (0.178) | | |
| <u>Control Variables</u> | | | |
| Age | 0.988*** (0.004) | | |
| Male | 1.011 (0.116) | | |
| Years of Education | 1.043 (0.027) | | |
| Household Income | 0.996 (0.042) | | |
| Perceived Social Class | 0.997 (0.005) | | |
| Membership in a Voluntary Association | 1.005 (0.146) | Constant | 0.079*** (0.038) |
| Producer Anxiety | 3.662*** (0.355) | Pseudo R ² | 0.1374 |
| | | N | 1624 |

Table 2
 Institutional Trust and Trade Preferences Model (Asian Barometer III, 2010 data set)

| DepVar – Trade Liberalization Preferences 1 = positive, 0 = negative | | Model 4 |
|--|---------------------|----------------------------|
| Generalized Trust | 1.170 (0.136) | |
| <u>Institutional Trust</u> | | |
| Partisan | | |
| Order | 1.175 (0.144) | |
| Power-Checking | 0.732** (0.092) | |
| Market | 1.470*** (0.177) | |
| <u>Control Variables</u> | | |
| Age | 0.988*** (0.004) | |
| Male | 1.031 (0.118) | |
| Years of Education | 1.040 (0.027) | |
| Household Income | 0.998 (0.042) | |
| Perceived Social Class | 0.997 (0.005) | |
| Membership in a Voluntary Association | 1.015 (0.148) | |
| Producer Anxiety | 3.592*** (0.350) | |
| | | <u>Farmer * Partisan</u> |
| | | Non-Farmer (0) * Trust (1) |
| | | 0.889 (0.156) |
| | | Farmer (1) * No Trust (0) |
| | | 0.345* (0.160) |
| | | Farmer (1) * Trust (1) |
| | | 1.960 (1.873) |
| | | Constant |
| | | 0.088*** (0.042) |
| | | Pseudo R ² |
| | | 0.1404 |
| | | N |
| | | 1624 |

Conclusions

- *Generalized trust insignificant on trade attitudes in Japan*
- *Institutions do have an effect on trade attitudes, and significance holds despite displacement variables*
- *Institutions can steer public opinion on trade agenda issues*
- *Mistrust can activate organized groups against trade*
- *Building larger win-sets means citizens must trust institutions*

Policy Implications

- *Institutional trust model could be applied to other domestic economic policies and country cases*
- *In the short-run, allow media to participate and actively engage in trade negotiations in TPP and other FTAs*
- *In the long-run, partisan institutions (the government) should “invest in social capital”*
 - *How can partisan institutions generate social capital?*
 - *Any other policy implications*