

Vision 2030 and Investing in Social Capital

Taejong Kim (KDI School)
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Outline

- Social capital: concept
- National agenda and social capital
- State of social capital in Korea
- Social capital and reciprocity
- Investing in social capital

Social capital: concept

- Social capital: networks, institutions, norms and trust promoting cooperation
 - Information incompleteness as a fact of life (Hayek)
 - Social capital as the difference in the volume of social transactions between otherwise similar societies with and without networks and trust (Fafchamps)
 - Social capital as the foundation of effective democracy (Putnam)
 - Social capital promoting economic growth (Knack and Keefer)
- Generalized trust or social trust as the focal point of social capital
 - More effective in promoting efficient transactions

National agenda and social capital

- Transition to knowledge-based economy
 - Voluntary cooperation between idea workers
 - Innovation and trust
- Consolidation of democracy
 - Participation and deliberation
- Expansion of social safety nets
 - Meeting diverse needs of idiosyncratic population
- Balanced regional development
 - Coordination and participation by the civil society

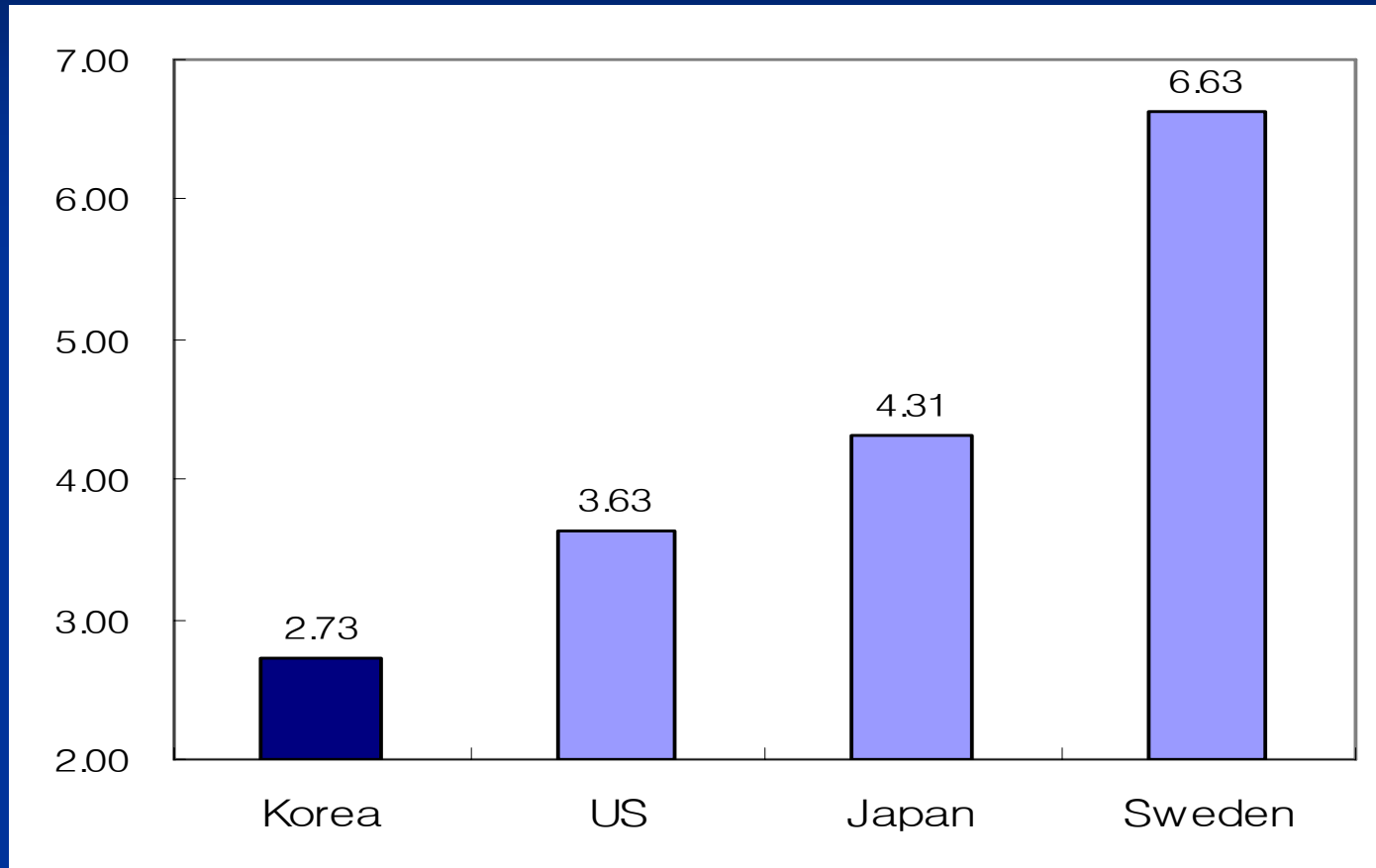
Vision 2030 and social capital

- Strategy for a prosperous and decent society
 - Nurturing new engines of growth
 - Development of human capital
 - Expansion of social safety nets
 - Investing in social capital
 - Active globalization
- Social capital as the foundation

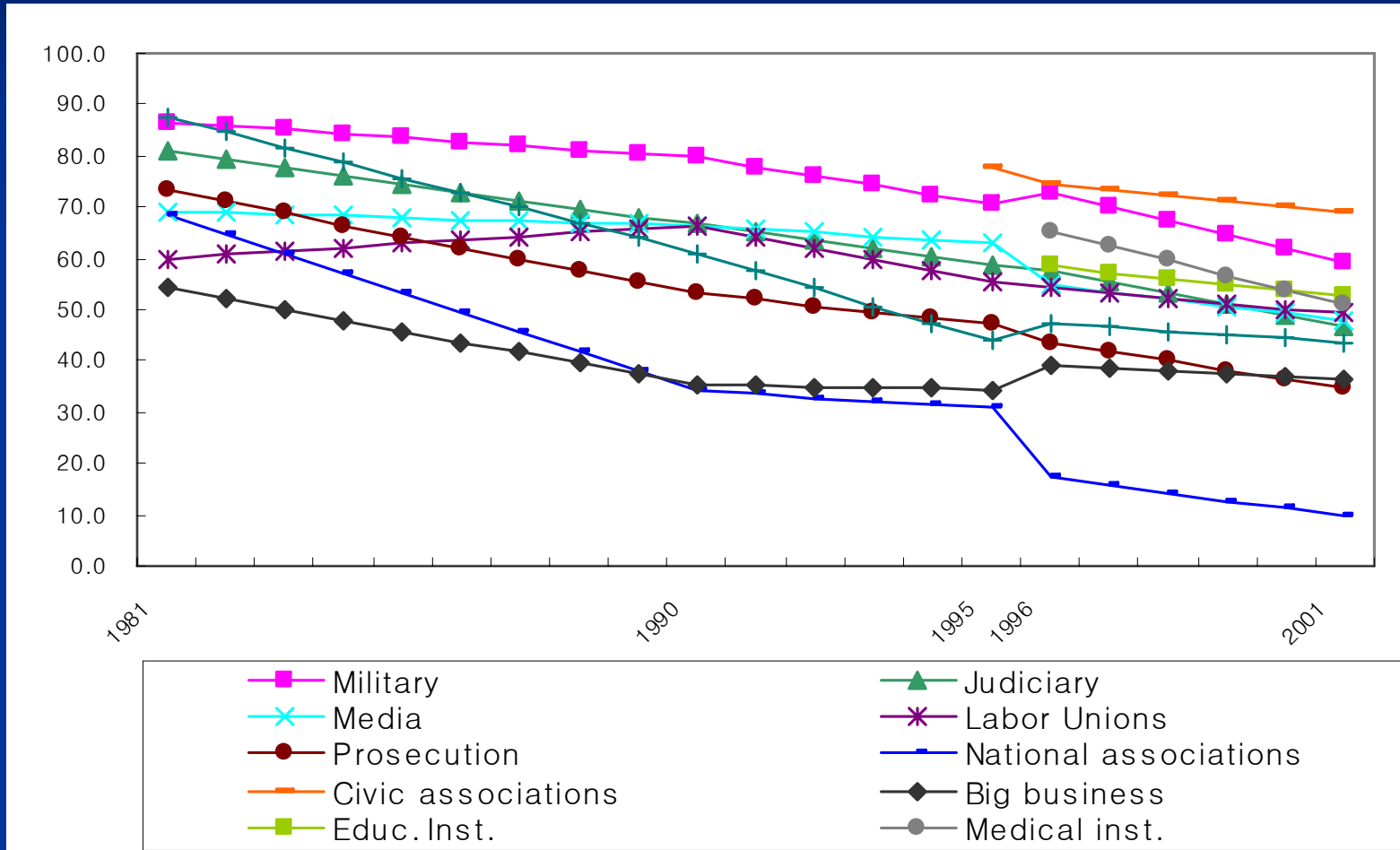
Social capital in Korea

- Low social trust and high particularized trust
 - Social trust low
 - Trust in public institutions getting lower
 - Participation in civic associations low
 - Particularized trust high with high investment to nurture personal networks
 - Low diversity in networks

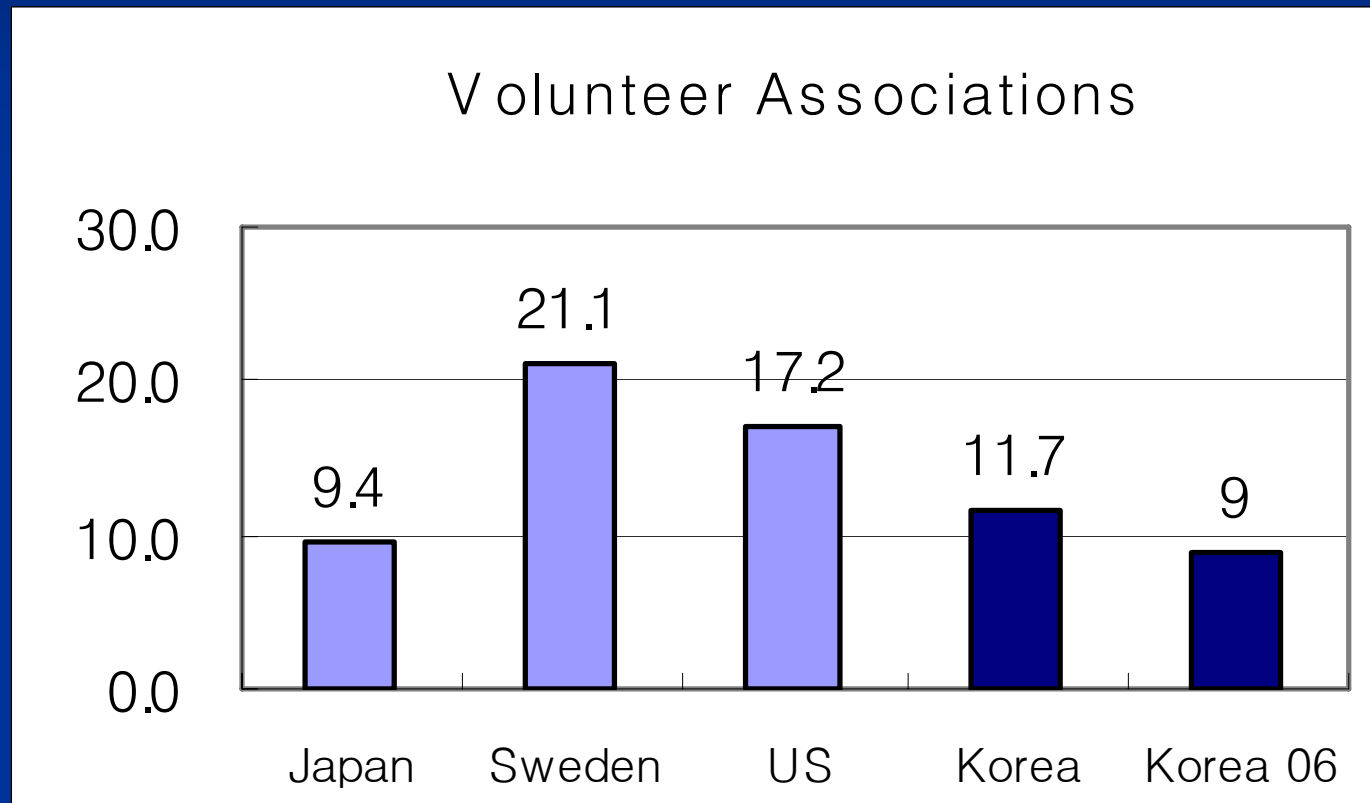
Social trust: international comparison



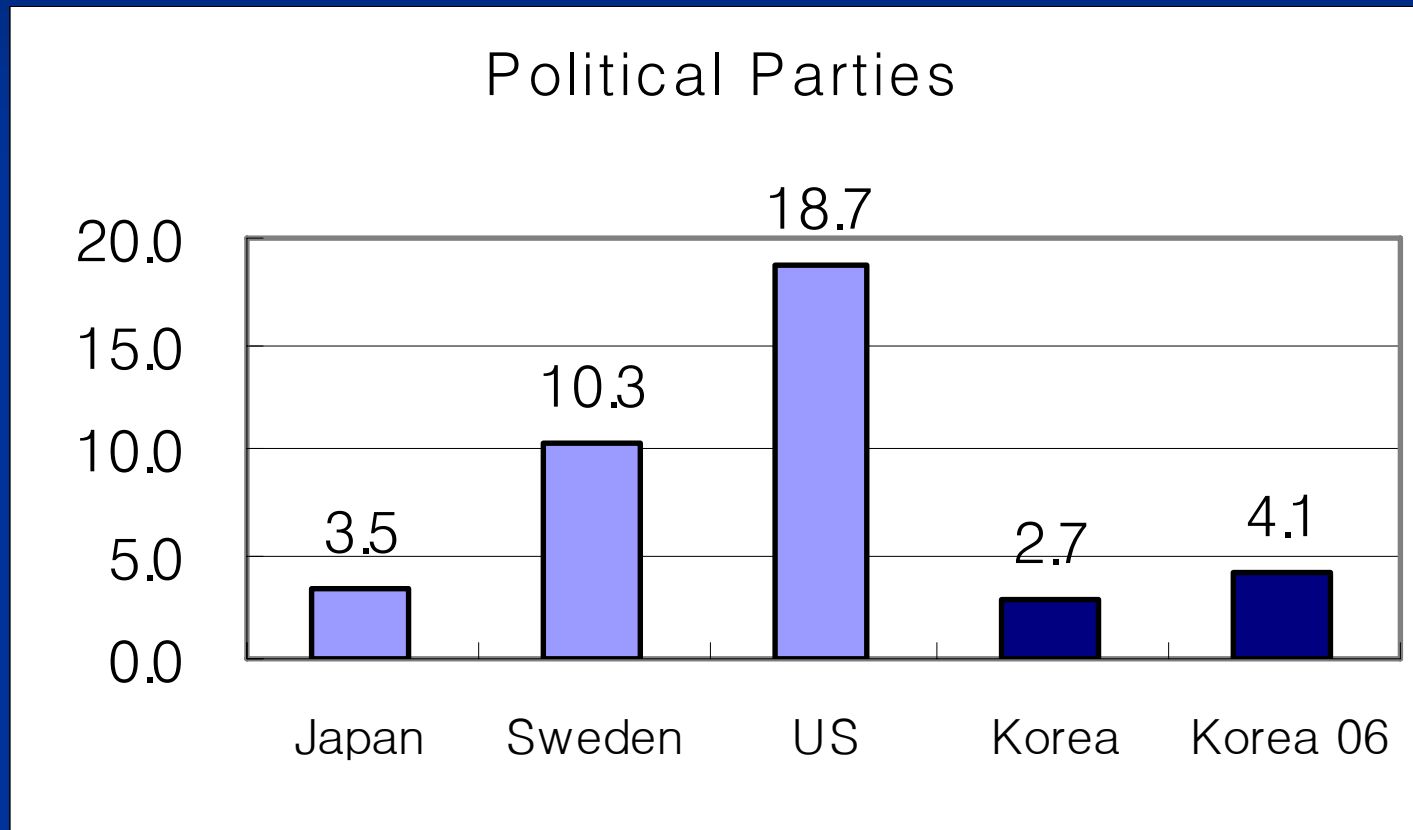
Trust in public institutions: trends



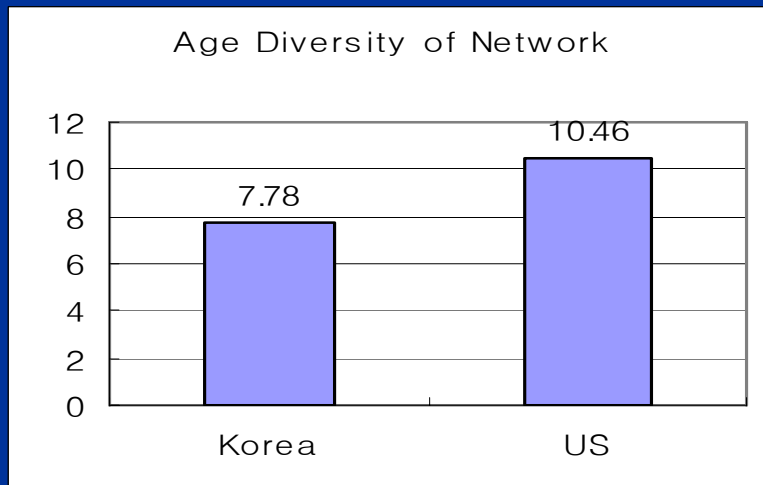
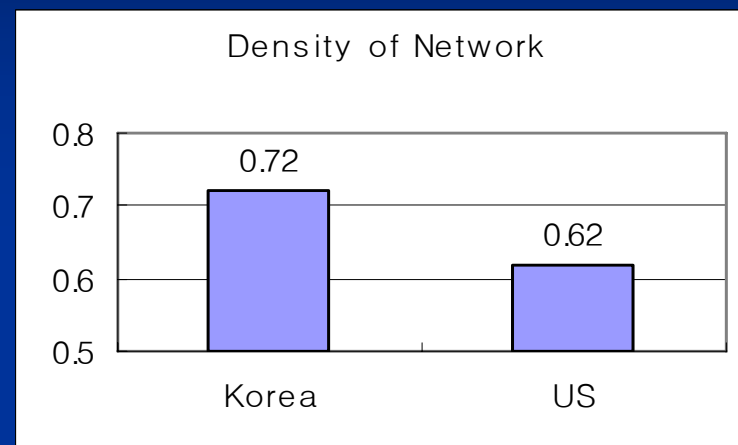
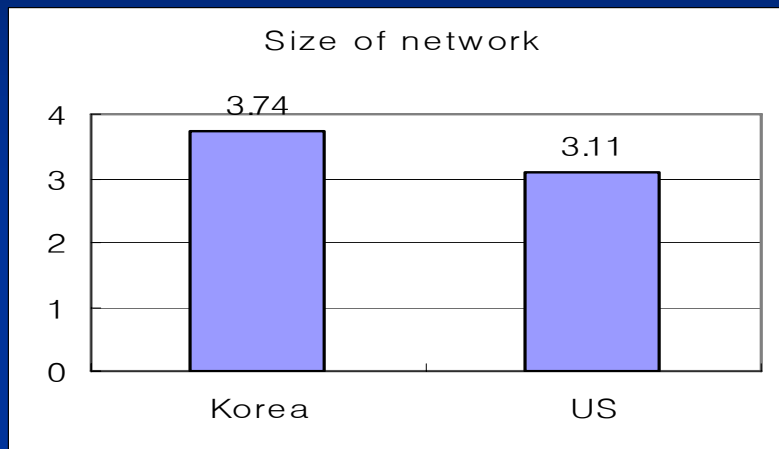
Participation in civic associations



Participation in political parties



Social networks in Korea and the US



Social capital and reciprocity

■ Prisoners' Dilemma

- Defection the dominant strategy
- The equilibrium is a low-welfare trap
- But there are ways to get out of the trap

	C	D
C	5,5	0,7
D	7,0	2,2

Social capital and reciprocity

- Mechanisms for social cooperation
 - Legal institutions: law, independent and impartial judiciary, and enforcement
 - Costly and not always applicable
 - Family and kind
 - Limited opportunities for transaction
 - Repeated interactions in a community
 - Modern society features anonymity and interactions between strangers
 - Sustaining cooperation in one-shot interaction between strangers without the aid of legal institutions → Reciprocity

Social capital and reciprocity

- Individualistic preference vs. social
 - $U_i(c_i)$ vs. $U_i(c_1, c_2, \dots, c_n)$
- Reciprocity (Fehr, Fischbacher, ...)
 - Reciprocal behavior derives pleasure from in-kind response to other people's behavior, fair to fair and nasty to nasty even when this results in material loss.
 - Reciprocal people are willing to place trust in other people's good will, but hate taking advantage of.
 - Self-regarding types and reciprocal types are mixed in society (about 50% each)
 - Reciprocal people revert to self-regarding behavior when stakes are too large.
 - Backed by an impressive body of evidence from experiments and field observations.

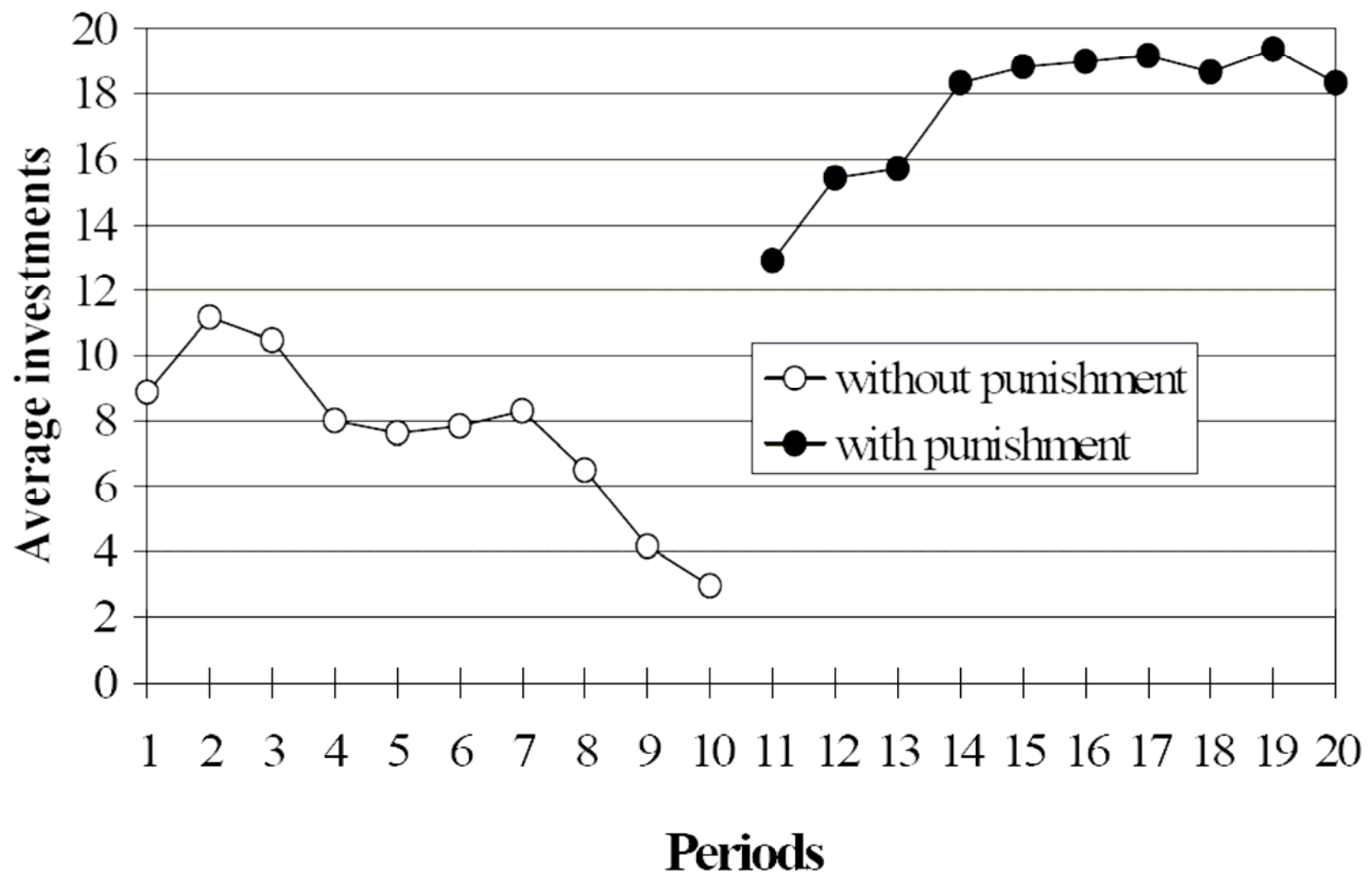
Social capital and reciprocity

- Public goods game
 - Each group consists of four players
 - Each player starts with \$20 in endowment
 - Money kept will stay with the player as it is
 - Dollar invested in “public goods” will grow to \$1.6 and evenly divided between all players regardless of contribution
 - The dominant strategy equilibrium is for everybody to free ride
 - In fact contributions to public goods average about 50%

Social capital and reciprocity

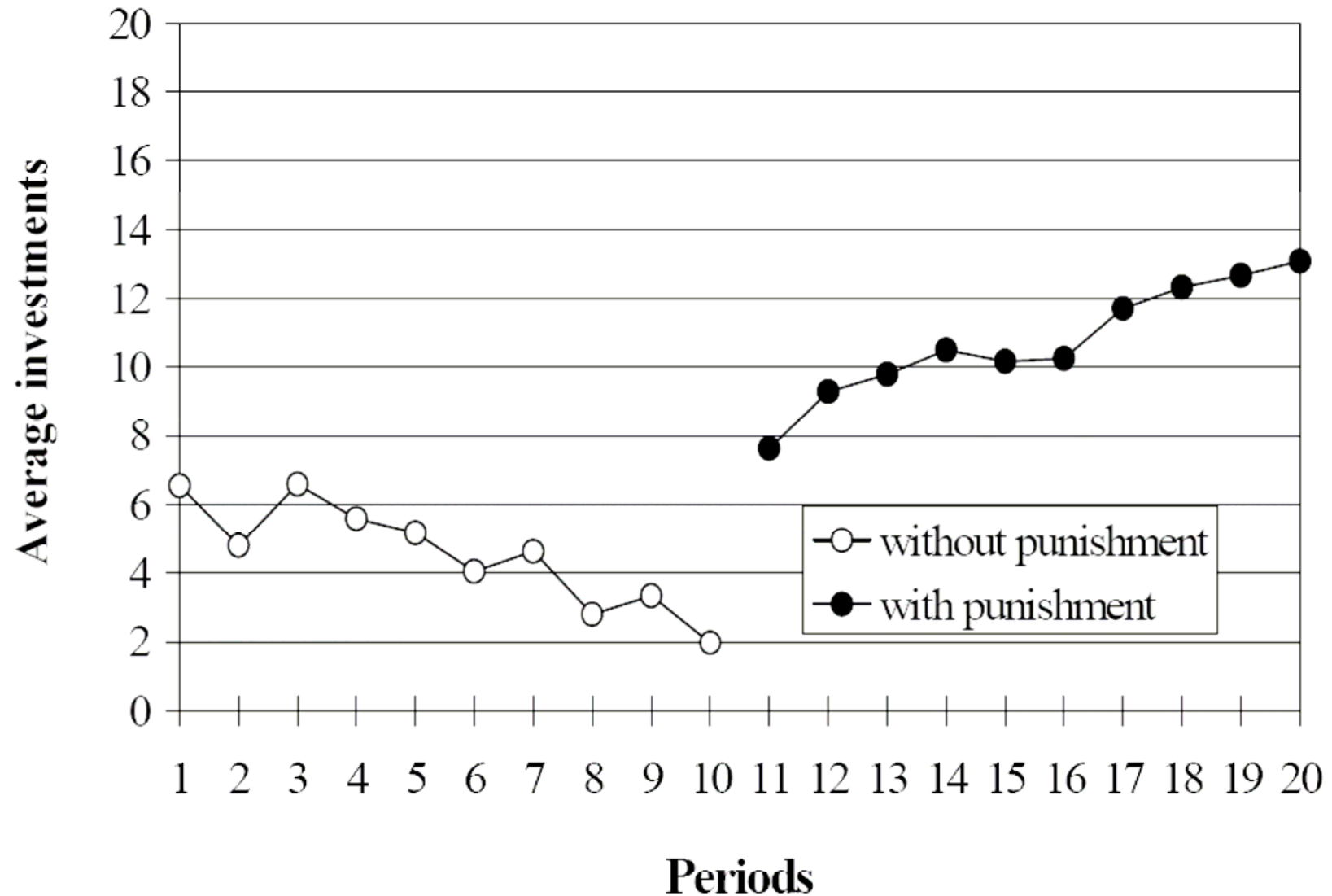
- Repeated public goods game with and w/o punishment opportunity
 - The one-stage game gets repeated
 - At the end of each round contributions by each individual is announced with anonymity preserved
 - With punishment opportunity, each player gets a chance to sacrifice his holdings to inflict loss on the opportunistic
 - Evolution of contribution patterns critically hinges on the availability of punishment opportunity

Figure 3: Average investments over time in public good games with stable groups (10 groups)



From Fischbacher, Gaechter, and Fehr (2002)

Figure 4: Average investments over time in public good games with random groups (18 groups)



From Fischbacher, Gaechter, and Fehr (2002)

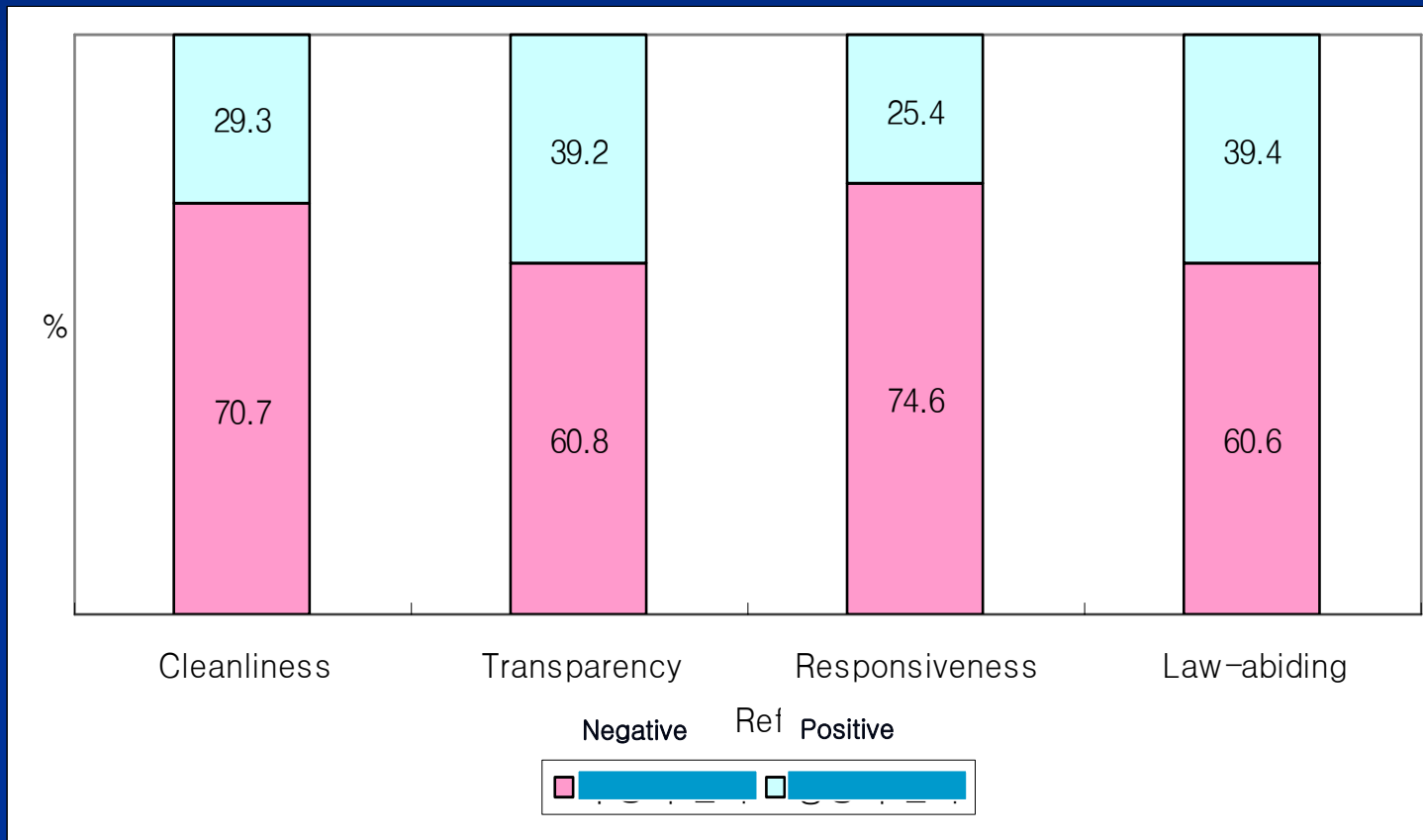
Social capital and reciprocity

- Average contribution in public goods games is an analogue of social trust
- Social trust goes up with the availability of punishment opportunity for unfair/opportunistic behavior
- Policy implications
 - Strict and impartial application of law critical for sustainable cooperation and participation
 - Democracy and civic voice critical for sustainable social development

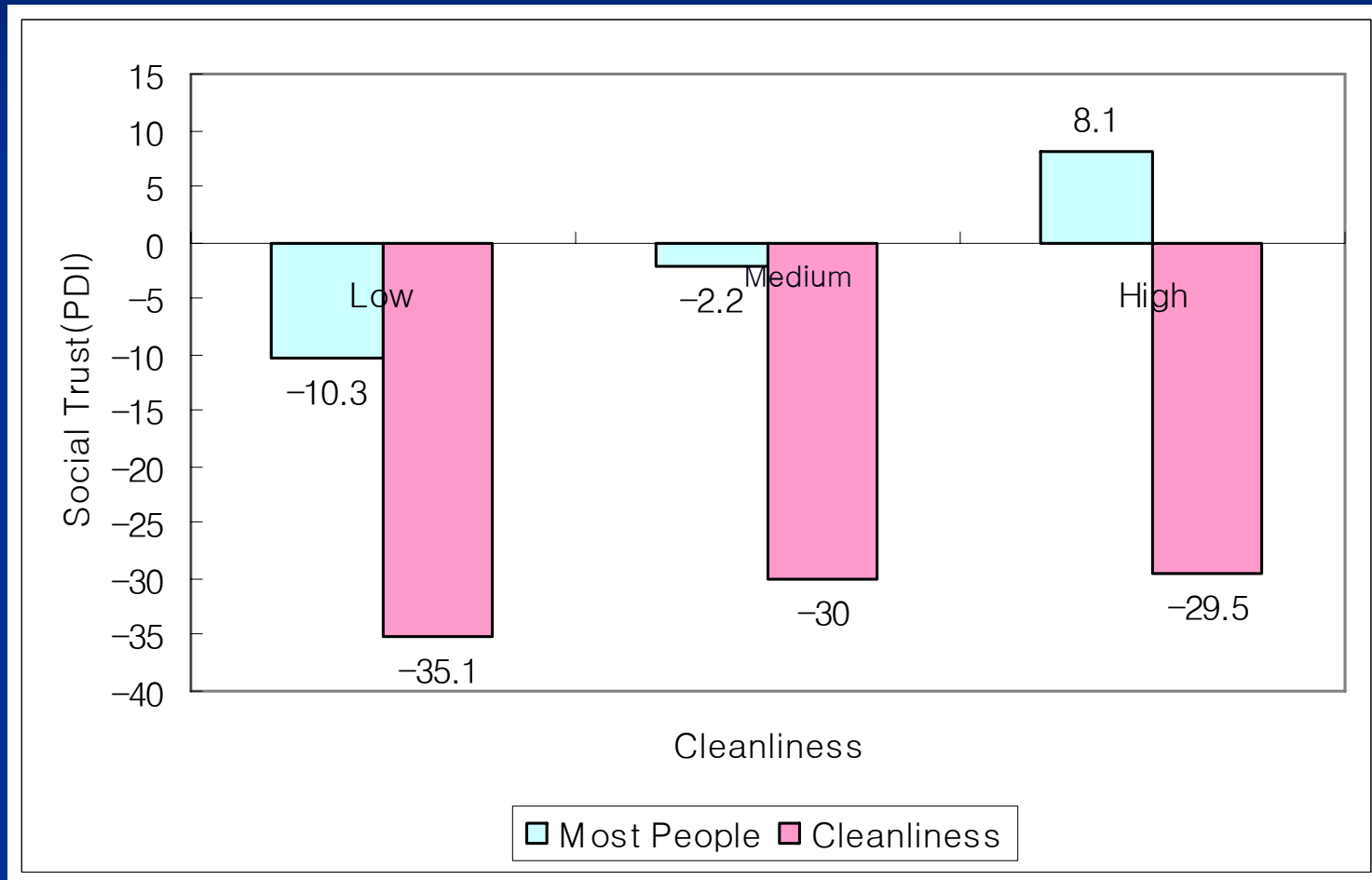
Social capital and public policy

- Rationales for policy intervention
 - Low social trust, trust in public institutions
 - Secular decline in the level of trust
 - Multiple equilibria and the existence of tipping point
 - Externality

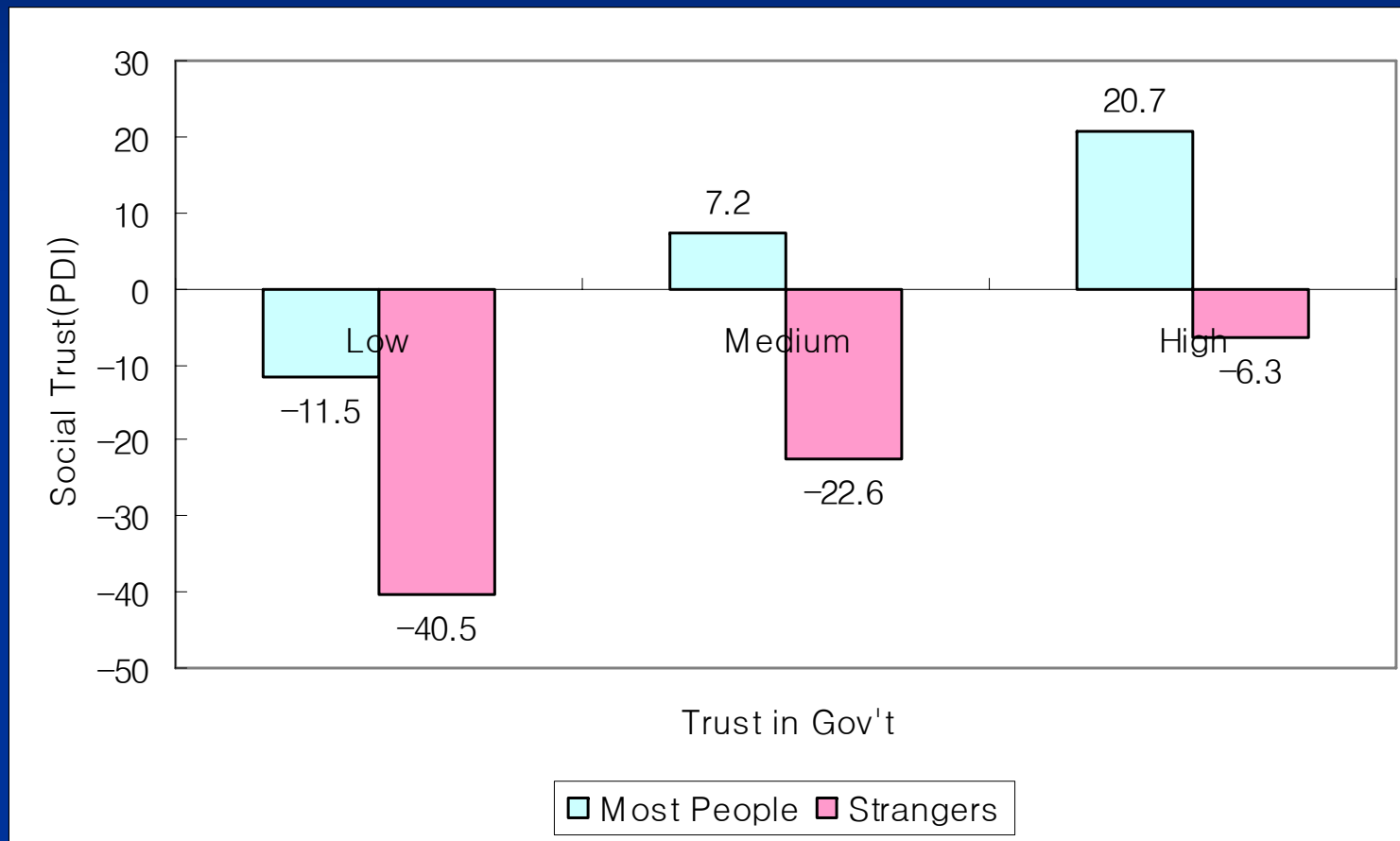
Perceptions about the quality of government



Perceptions about government and social trust



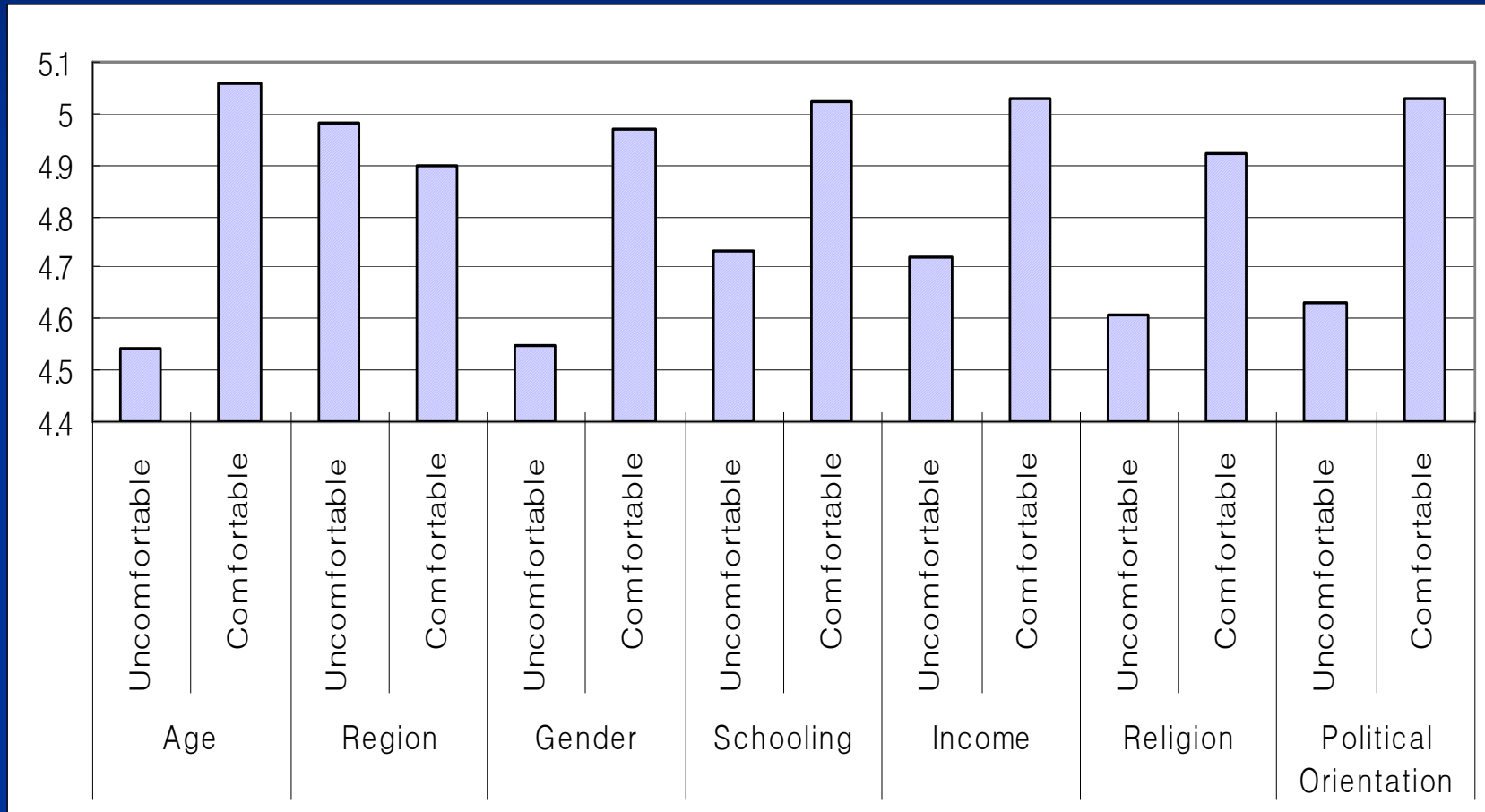
Trust in government and social trust



Openness toward those unlike self

	Highly Uncomfortable	Uncomfortable	Not Uncomfortable	Comfortable	Highly Comfortable
Age	1.7	22.9	36.4	32.8	6.2
Region	0.6	11.0	37.3	39.6	11.5
Schooling	1.1	14.7	37.2	38.2	8.9
Income	2.5	22.3	35.6	31.2	8.4
Political Orientation	2.3	15.8	43.1	30.8	8.0

Openness and social trust



Investing in social capital

- Raising trust in public institutions
 - Expanding opportunities for participation in policy process
 - Citizen's jury
 - Deliberative polling
 - Reforming judicial institutions
 - Rewrite incongruous, outdated, ambiguous clauses
 - Judicial reform to eliminate corruption
 - Tackling tax evasion
 - More aggressive pursuit of evaders
 - Publish data to establish that most people do their shares
 - Tackling NIMBY phenomena
 - Never impose, even with compensation
 - Combination of fair compensation, due process, and fair distribution

Investing in social capital

- Nurturing civic society
 - Promoting participation in volunteering
 - Time banks, senior corps, etc.
 - More public libraries, and support for purchase of books
 - Percent law
 - 1% of income tax payable at disposal of the taxpayer to support favorite NGO, NPO
 - direct taxpayers' support without the mediation of government
 - Promoting the role of independent foundations
 - Community foundation to support local, grass roots organizations
 - Support for innovative action research, capacity building in local civil society and labor-management relationships management