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**JUDIT SZILÁGYI, PHD**

Associate Professor

Budapest Business School, University of Applied Sciences

## **CHANGES IN SOCIAL CAPITAL IN CONTEMPORARY JAPAN**

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## Introduction

The paper analyses the changes in social capital as a result of the “lost” decades. The major argument is that especially in the era of modest but visible results after almost six years of Abenomics, the „crisis” that is underlying is much more of social than of economic nature.

Social capital is evaluated as a source of growth or rather development or well-being, among other types of capital: physical, human, environmental. It is also identified as an element of the Asian developmental state and the social contract shaping the circumstances of fast modernization and expansion. The sudden end of this path almost three decades ago has been analysed from various economic aspects, although the term „lost” will only be cautiously applied as it misleadingly suggests an otherwise easily attainable development trend.

The aim of the paper is to give a deeper insight into some of the decisive social factors contributing as causes to the deepening and prolonged economic crisis (i.e. issues of adaptability, change management or the demographic collapse) as well as its consequences (i.e. lost generation, loss of trust, social cohesion, changing values).

## The Concept of Social Capital<sup>1</sup>

Social capital, like so many concepts in social sciences, is a new name for old ideas. Alexis de Tocqueville wrote about American life as early as the first half of the 19th century, outlining the idea of social capital, without coining the term itself. The sociologist Pierre Bourdieu used the term in 1972 in his *Outline of a Theory of Practice*, and clarified the term some years later in contrast to economic, cultural and symbolic capital. The idea that human beings formulate communities and networks that constitute tangible values not only at the individual level, but at the social and even the economic levels, must be as old as the appearance of humanity.

The term is usually broadly defined but the different approaches share some important aspects. Social capital refers to a network, an interaction between members of the society, whether defined as relatively smaller groups, communities, companies, etc. or the whole society. Effective functioning of these groups is based on a shared identity, shared norms, shared understanding, values, trust and above all cooperation. Therefore social capital is a positive product of human interaction, although some critics also point out its possibly negative appearances, including nefarious groups (like gangs, drug cartels) or in business or political life, its abusive use for manipulative purposes.

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A major positive impact of social capital on economic and social developments is that based on mutual trust and reciprocity, it reduces transaction costs, making cooperation effective. Even the necessity for regulative background, including legal contracts or government regulations can be significantly reduced through enhancing social capital.

The concept of social capital in politics and economics have been basically founded in the 1990s by Putnam and Fukuyama. Putnam (1995), postulates that social capital is essential for democracies to work. In other terms, the historically acquired and accumulated social capital by the members of the society to engage with each other serves as a learning process and a basis for accumulating trust, therefore facilitates the democratic resolution of conflicts of interest and collectively pushes for effective and positive public policies. The other major area of study of social capital, advanced by Fukuyama (1995), takes the economic aspects into account, arguing that social capital allows the creation of prosperity, as a high level of social capital enables business firms to take risks and stretch networks fully to create wealth on a large scale for a prolonged period of time. Fukuyama also argues that as social capital is stable and hard to influence, public policy measures are mostly ineffective in this field. Putnam also mentions this by acknowledging that social capital changes very slowly and might remain practically constant in time (Putnam, 1993). Nevertheless, recent development, especially the IT revolution has brought about fundamental changes in social capital.

In his critique of social capital Solow (2000) makes an argument that in order to make social capital is empirically relevant its effects should be pronounced and measured in total productivity in growth. This is not statistically observed in most types of studies and the correlation is hard to calculate by exact terms.

## **Types of Social Capital**

Structural social capital refers to what people do, e.g., participation in associations, while cognitive social capital refers to what people feel, e.g., trust in others, reciprocity between individuals (Harpham, 2008). In much of the literature, trust is the key component and the most deeply analysed element of social capital. According to different categories, distinct types of trust can be defined. Social horizontal trust is the generalized or horizontal trust people have towards one another, whether between people they know or strangers; it indicates the society's capacity and ability for collective action. Institutional vertical trust refers to the social capital between groups of individuals and the institutions that they interact with. This type of trust is based on the institution's reputation for impartiality, fairness, and redistribution (Rothstein & Stolle, 2008).

There are distinctions between thick and thin social capital, inward looking and outward looking social capital, as well as bridging and bonding social capital that bond networks and communities by forming trust between and within in-groups and out-groups (Putnam & Goss, 2002). Reciprocal norms like meritocracy is observed to generate bridging social capital.

## **The Connection Between Social Capital and Growth / Well-Being**

In terms of theoretical models concerning how social capital directly impacts growth, three basic directions have to be mentioned. (1) Social capital assists the accumulation of human capital, (2) Social capital affects financial development through its positive effects on collective trust and social norms, and (3) It facilitates networking between firms that result in the creation and diffusion of business, management and technological innovations (Chou, 2006).

In identifying the major sources of growth, social capital has a crucial and yet relatively neglected role. Physical capital, human capital, even environmental capital (where the term “capital” is used in a broad and general sense, meaning a type of resource) are more widely discussed and accepted sources of wealth and development. Still, a number of analyses already exist in the field, generally evaluating theoretical models and/or empirical evidence, but they are very limited in the case of Japan. This also shows the relative underestimation of the importance of social capital and its role in the prolonged crisis or recent changes concerning social capital in the Japanese society.

An additional source of neglect might be that those endangered or negatively affected by the changes are generally not powerful enough to become visible (like women, part-time workers, younger generations etc.), while the more powerful layers are naturally counterinterested in surfacing changes that might challenge their relative position.

Direct connection with business can be also grasped in a number of forms. The growth of entrepreneurship, improved performance of specific groups, including superior management performance, enhanced partnerships, like supply chain relations, strategic alliances can be also associated with social capital. The term is also used to describe enhanced personal relationships within the company which enables deeper identification with company goals, building trust, respect and reciprocity between employees and thus improving company performance. In this respect, Japanese companies performed traditionally highly through lifelong employment schemes, seniority wages and a strong feeling of in-group identity.

The relation between government policies, institutions and social capital is also widely analysed. A high level of social capital is associated with good governance, effective collective action, a stable and robust economy, and democratic efficiency, while poorly performing political and economic institutions are usually traced back to the absence of social capital. The underlying cause is that “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).

There is also both theoretical and empirical evidence that social capital and health, both physical and mental, are closely interlinked. The more detached the society members, the larger the risks are for cardiovascular diseases, hypertonia, or depression, among other illnesses. The first study to carry out a nationwide empirical

research in Japan considering the relation between social capital and mental health was published in 2010 by Hamano et.al. Based on relevant sociodemographic dimensions and characteristics of residents in the communities tested, they measured the connection between mental health and social capital along two separate dimensions: structural social capital and cognitive social capital. These two components may differentially affect mental health outcomes. For example, a systematic analysis by De Silva (2006) revealed that although cognitive social capital (like trust in other members of the society or reciprocity) is associated with better mental health, structural social capital (i.e. participation in associations) might be related with poor mental health.

## **The Japanese Miracle Based on a Unique Model**

There are two basic features that constitute the core of the “Asian developmental state”, both having their roots in the Japanese model: (1) a “pilot agency”, or in other terms: the bureaucratic elements of the central planning system and (2) industrial associations, or cartel-like networks of private firms operating in the same industry.

In contemporary Japan, there is one industrial association (*gyo-kai dantai*) in practically every industry, even though some industries are more tightly organized than others. Wartime Japan and Manchuria had similar institutions, called control associations (*to-sei kai*), in a number of key industries, such as the steel, coal, automobile, railroad, and trade industries.

A further and usually neglected element of both the general Asian developmental state and the specific Japanese model is social capital. Both elements are facilitated by the social capital originating in the Asian cultural background. The allocation of relatively scarce resources among industries, setting up priorities and central plans about protecting and nurturing infant industries (the task of the pilot agencies) or acting as a two-way political vehicle (the industrial associations) both are particularly enhanced by the stability and richness of social capital and the typical Asian values that place community values above individual ones.

Industrial associations are cartel-like networks of private companies operating in the same industry that are partly similar to lobby or pressure groups in Western market economies, and especially the United States, but they perform much broader activities, acting as two-way political vehicles. They not only pressure the government by articulating the voices of member firms to the policy- and decision-making processes and coordinate the interests of the members but also act in the other direction. They voluntarily regulate their members and monitor their compliance with the legal background and even less explicit government guidance. Therefore, they can be considered like the extension of the government pilot agency acting as a quasi law-enforcement body helping the implementation of government objectives and policies and even decreasing friction among the actors.

Without the specific Japanese social capital, neither of the key agencies would be able to effectively perform their tasks. In-group cohesion through life-long employment patterns and a wide acceptance of the role of tradition and hierarchy, even expressed in the usage of honorific language and rooted in Confucianism are typically Asian values and design the specific pattern of social capital. The paper aims to analyse its changes and the effects on specific elements of what has been “lost” during these three decades.

## **The Japanese Developmental State Model and Social Capital**

Due to its very specific cultural, structural, institutional etc. arrangements, and the traditional closed society's reluctance to uncover its real nature towards outsiders, Japan has been a puzzling country for foreign observers and scholars to categorize and analyse. This statement is applicable to a number of areas including the use of comparative political economy. The first question to evaluate is according to its institutional arrangements, whether Japan's developmental welfare state regime should be categorized as a conservative regime, liberal regime, a hybrid of the two, or something entirely unique (Esping-Andersen, 1997)

Although the dominant private welfare provisions and the low levels of social expenditure by the Japanese government are more in line with the liberal welfare state, general and familial social policies and occupational segmentation also give the country some characteristics of a conservative welfare regime (Nocos, 2015). State interventionism is nevertheless obviously higher and deeper than in neoliberal economic models, therefore Japan has been the archetype of the developmental state model, even if nowadays some analysts point out that after having reached a high development level, there is no reason to call Japan any more a „developmental state“. But this term not necessarily and exclusively reflects the „catch-up“ element and that goal of the state, rather refers to the coordination and intervention by the state and its institutional structures allowing deep reach into major economic and social policy areas.

Japan therefore is a coordinated market economy (CME) as opposed to liberal market economy (LME), if analysed through the lens of the varieties of capitalism framework (Hall & Soskice, 2001). However, Japan differs from most CMEs with its focus on work-based and company-based 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, as in-groups and out-groups receive different sets of benefits and protections segmented more strongly than other conservative welfare states operated in coordinated market economies. Furthermore, the increasingly volatile global environment puts a pressure on Japan to arrange structural reforms.

The difficulties in finding Japan's place within these comparative frameworks also complicates analysis of social capital in the Japanese society. Institutional arrangements, their design and abilities to generate trust, norms and networks have a key role in generating social capital (Kumlin & Rothstein, 2005). The structure of welfare institutions and industrial relations, for example, can influence the strength or weakness of

generalized trust in a society by mechanisms that distribute resources fairly and impartially. Conservative welfare states are expected to maintain lower levels of social solidarity than liberal welfare regimes (Larsen, 2013). Japan's ambiguous position in these categories, and the technological, demographic, and social changes of the past decades suggest that further analysis of changes in social capital is required.

## **Rich in Social Capital, Still in Crisis?**

A few elements of the most valued aspects of social capital in Japan need deeper analysis as they point out more complexities and shed light on contradictions.

First of all **trust**. The most valued and most widely admired cohesive force of the Japanese society. Japanese people are known to be honest and trusting and these basic values have remained despite the social changes and individualization described above. Nevertheless, these are not monolithic concepts. If we drew the levels of trust on a graph depending on the different target groups – i.e. trust in close family, wider relatives, trust of colleagues, neighbors, and strangers, the result is the concept of a “**radius of trust**”. The Japanese truly have a very high starting level towards family and relatives, much higher than Western societies. Trust also remains relatively high towards those that people have regular interactions with, hence the perception of the “richness” in social capital of the Japanese society. However, the slope of this trust line is much steeper and turns relatively fast into rather “distrust” as we measure the attitude towards more distant groups. This line is generally much flatter in Western societies, meaning that trust in strangers is much higher.

This trust line might explain several aspects of the features described under the subtitle “Japan Inc.” below. The general distrust towards “gaijin” (Westerners) or outsiders to the Japanese society makes adaptation processes, especially in times of a rapidly changing and globalizing environment less feasible. Whether it is about particular management practices, like decentralization of business decisions to foreign affiliates, trusting local managers to target local markets, or general openness towards change management, this specific social feature is a key factor behind the processes concerning the Japanese company's performance. The Galápagos-syndrome can also be rooted in this phenomenon.

The second aspect often cited as a major source of social capital in Japan is **solidarity**. A similar distinction can be drawn here, differentiating according to closeness. It is exactly the strong sense of solidarity in the social texture of the Japanese people that excludes outsiders or foreigners. The low level of diversity and migration makes it easier to maintain this type of solidarity attitude.

Furthermore, we have to differentiate short-term and long-term social capital. The typical example is a post-disaster situation where most societies score high in terms of solidarity. The Japanese, constantly under pressure from insecurity and natural disasters, are well known for their cooperation in the immediate aftermath of such a situation. After the 3/11 earthquake the first 40 minutes showed the preparedness and

altruism of the society when many neighbors saved each other. However, on the long term, or in the absence of such testing of social solidarity, the real face of the society unfolds. In this respect, the Japanese are not showing more solidarity towards “far” members of the social radius than Western societies.

## **Elements of the Crisis of Social Capital**

One of the main arguments of this paper is that the crisis that Japan has been facing is much less of economic nature than of a social one. Social factors however, do play a role in the economic processes like the “lost decades” and the long term economic stagnation or the diminishing global competitiveness of Japanese companies. Under social crisis we might consider various dimensions, most importantly the diminishing social capital, identity crisis and a crisis of values. More specific elements, like the demographic collapse and the adaptability of Japanese firms to the new challenges of globalization will be discussed under separate chapters.

Japan has been traditionally known for its sense of collectivism where collective rights and interests naturally overwrite individual ones, where community has different meanings and sizes, starting from the families to school classes, local communities, sports clubs or the nation as a whole. This value system, rooted mainly in Confucianism, has undergone substantial changes since the postwar period, and more recently, since the end of the Cold War and the digital revolution.

Interestingly enough, Japanese scholars rather see that in the postwar pursuit of denouncing totalitarianism and militarism, the Japanese over-reacted and overemphasized individualism (Oyama, 1990; Watsuji, 2007). Together with Western-style economic reforms this has brought about a relatively fast shift from communitarism to individualism. Whereas, in Western analysis and even public opinion, the consensus about the Japanese society still holds that it is much more collectivist in its values than any Western society. So it seems that Japanese scholars and mainstream public perception considers the changes relatively fast, undesirable and unbearable, while from a purely economic point of view, they are still not fast and deep enough to be in line with the rapidly changing global environment. It is important to underline the economic or in other terms, rational point of view in the previous sentence, and at the same time emphasize that social changes never follow purely rational objectives, initiatives and logic, and as long as we consider ourselves human beings, this feature is rather positive. We have to bear in mind a complexity of aspects.

The changing values became especially visible since the 1960s and 70s, including the negative elements of the transition. Along with the undoubtedly positive changes like widely and equally granted individual rights and freedoms, they have ended up overemphasizing the individual's definition of his own values at the expense of social ones and dissolving the traditional social systems. A few examples of the negative impacts: the dissolution of local communities, an increasing number of nuclear families, growing number of divorces



and single parent-families, alienation from the society, growing social anxieties or aggressive asserting of egoistic interests.

All these aspects are unfortunately too well known for Western societies and show striking similarities. The rapid pace of changes, especially rapid by Japanese terms, have created numerous frustrations and social disfunctionalities. The fact that these shifts happened as general phenomena simultaneously in different parts of the world, underlines that the major causes have been also basically similar and rooted in consumer society values, accelerated technological advancements and the break-up of natural units of society, including families or communities.

The search for a **spiritual identity**, re-inforcement and community has become visible in the substantial increase of the so-called new religions since the 1960s continuing until the present day (Kisala, 2006). New religions such as Buddhist-based Sōka Gakkai (創価学会), Risshō Kōseiikai (立正佼成会), or Bussho Gonenkai Kyōdan (佛所護念会教団) aspire to saturate the contemporary search for values with the resurrection of past knowledge and assurances in an updated, more relevant context of present-day social issues. Their major function lies in harmonizing the identity of the individual with the identification with the community in the 21st century social context.

## The “Lost” Generation

The expression was first mentioned in 2007 by a series of articles run by Asahi newspaper, coining the Japanese term “**rosu gene**”. Initially it meant the generation born already during the decades of stagnation and facing new practices and insecurities in their social life, most importantly in terms of their employment forms. Although many analysts argue that changes in the labour market especially concerning the cornerstones of life-long employment patterns and seniority wages have not been fundamental and substantial, still new forms of employment have emerged. Abbreviations like **NEETs** meaning “Not in Education, Employment or Training” have appeared, part-time workers, nonregular, temporary contracts gained relevance and as a result, a basic fraction line between the „in-group” of those having a secure, permanent job and the “out-group” of typically young people have appeared, diminishing social cohesion and capital.

A further element is the psychological loss that can be labelled “**lost dreams**” or “**lost visions**”. The Japanese society has been famous for displaying relatively low distance between different layers, meaning that practically everyone belonged to the “middle class”. Now the middle class illusion available for everyone was broken, which has shaken the foundations of the socioeconomic structure. The income gap between the wealthiest 10% and the poorest 10% was eightfold in the mid-1990s, that has become twentyfold within one decade (Funabashi, 2017, p.31). Even though the distance between the rich and the poor is relatively small

compared to other OECD countries, this change, similarly to the labour market developments, has shaken the Japanese society.

Japan's national pride fueled by its internationally admired collective abilities, diligence, innovation, combined with amazing results has come also under review recently. Even though Japan still counts as a positive example with its modernization path and has not lost its major values why most people truly acknowledge its people and its culture. But has lost its leading position in the case of digital technologies, even electrical devices, and has lost its vision of its Asian leadership position, no matter how unrealistic on the long run the maintenance of this role was. The Chinese take-over of its positions has given new impetus to the rise of nationalism, but not in the positive context, rather fueled by anxiety about the loss of influence and prestige.

The most typical feature of the “**lost generation**” is however that many of them stay either intentionally or rather unintentionally single. This phenomenon will be discussed in more detail under the demography chapter, but terms like “**herbivore**” as a reference for young men having no interest in either career or the opposite sex, has gained popularity. More recently new expressions, like “**incel**” and have appeared, meaning someone lacking a romantic relationship, despite his interests and desire. Specific names for singles in the geek society arise constantly to label highly specific groups, also showing how serious and widespread this problem is,

Information technology revolutionized every aspect of human life and we have just started this amazing and long journey. The dynamic changes of social capital has been one of the most prominent areas of this developments by enabling different types and a new scale of interactions. However, we have to acknowledge that at the same time accelerated the destruction of traditional communities and instead created a virtual, therefore non-real sense of community. After many optimistic assessments of the digital technologies' effects on human life, which should not be denied, it is also time to face and manage the massive negative consequences especially in terms of destroying social capital.

## **Contradictory Feelings of Belonging to a Community**

An important element of social capital that can be hard to conceptualize and calculate, nevertheless constitutes a crucial element of the society is the evolution of communities.

In addition to the processes described above, the sense of detachment, dehumanization caused by technology, stressed working conditions, loss of physical connections by massive urbanization etc. a popular assumption states that these negative feelings could be overcome by community initiatives and a sense of belonging to a voluntarily organized association. Studies in this field, however, have not completely proven this presumption.

A major contradiction emerged from the analysis cited above (Hamano et. al., 2010). The nationwide study of community social capital based on the “cho-cho” or “aza” units, which is made up of approximately 250 households has not proven that belonging to a group consequently enhances mental health. Nevertheless, by membership in associations i.e. sports, hobby, recreation, or cultural groups, showed a statistically significant association with psychological health. On the other hand, structural social capital, measured by membership in neighborhood associations, was not significant.

A possible explanation for this different statistical result could lie in the Japanese society itself. The neighborhood associations, although at first sight might look exclusively positive concerning their effects for their members, might turn out the contrary as members may feel burdened from a sense of duty, which they already experience in other areas of their life. Regular activities and expectations such as the need to attend meetings or to assume managerial or supervisory roles for neighborhood-based projects are not welcomed by all members but at the same time, cannot be openly criticized, which might accumulate further inner tensions.

In order to lessen the burden, neighborhood associations recently have often selected members from different households based on a rotating system to serve in a supervisory capacity. Thus membership in such associations is less voluntary and members might experience fewer positive feelings than would those who voluntarily become members of recreation, hobby, sports or cultural groups. This hypothesis, such as many others in the paper, of course, would require further in-depth investigations.

## **The Demographic Collapse**

Japan is unique in the demographic perspective, too. The speed and scale of its population ageing is unprecedented in human history. Currently, a steeply growing percentage of its population is aged 65 years or older which is the retirement age. The sharp contrast with data only three decades before is showing the dramatic demographic change the country is undergoing. In 1985, this ratio was only one in ten persons, while in 2017 it stood at 27.7% (Statistical Handbook of Japan, 2018). In other comparisons, the elderly proportion of a slight 7% in 1970 doubled in only 24 years, as in 1994 it was already 14%, while the next 7 percentage point rise only required 13 years (Atsushi, in Funabashi, 2017, p. 36.).

Developed countries are normally characterized by similar changes as life expectancy has grown considerably while total fertility rates are diminishing. But the dramatic transition is easier appreciated if put into context: other developed countries have experienced similar changes in terms of the growing ratio of the elderly population – but during the course of about a century. Expressed in statistical terms, the time when the percentage of people aged 65 or above exceeded a 1 to 10 ratio was only in 1985 in Japan, while in other developed countries this happened considerably earlier, in 1940 in France, 1950 in Sweden, 1965 in Italy,

1975 in the USA, and now, their respective percentages of the population aged 65 or above are 18.9% for France, 19.6% for Sweden, 21.1% for Germany, 22.4% for Italy (Statistical Handbook of Japan, 2018).

The huge increase in life expectancy can be traced back to general economic, social, and health care developments, similarly to other developed countries but still different in the aspect that Japan has gone through a post-WW II development path that was incomparable in that time to any other examples. This uniqueness and speed is also a characteristic of the remarkable social changes, in particular the swift transformation of the role of women in society, the changes in social values (discussed later), patterns and marriages and the rapid drop in fertility rates.

If we compare demographic indicators immediately after the second World War with recent data, changes become immediately obvious and astonishing. Life expectancy at the time of the foundation of modern Japan, i.e. the revised constitution created by the US that became effective in 1947 was 50.06 years for men and 53.96 years for women, and median age of the population was 22 years (51.67% of the population) (Aoki, 2012). The greatest change according to World Bank data happened in the first decades of the modernization path as by the 1964 life expectancy has risen above 70 years for both sexes and continued to rise steadily until the outburst of the crisis, as by 1990, life expectancy already stood at 75.92 (for men) and 81.90 (for women) (World Bank, 2019) and the median age of the population was 37 (CIA World Factbook, 2019). Changes in the next 20 years have been less substantial in terms of life expectancy, although Japan has become famous for its stable No. 1. position in terms of life expectancy for both sexes (although recent data has revealed that in terms of male life expectancy, some European countries have slightly higher indicators).

The term “**graying society**” has also gained popularity during these decades because of the growing proportion of the elderly people in the society. By 2010, life expectancy has risen to 79.74 years for men and 86.39 years for women, while in 2017 these indicators stood at 81.09 years and 87.26 years, respectively (World Bank, 2019). Meanwhile median age has reached 47,3 years (CIA World Factbook, 2019) and Japan has become No. 1. worldwide concerning this indicator, too.

To make a quick comparison, life expectancy for Hungarian men only reached 70 years astonishingly late, in 2009, although previously it had already stagnated between 65-67 years, reaching all-time low numbers (since the first data was provided by the World Bank from 1960) in the 1980s and even the early 1990s as a result of the transition crisis. Women life expectancy has been higher, above 70 years for the whole period and on a steady rise, without a similar drop in its positive trends. In 2017 women in Hungary had a life expectancy of 79,7 years, while men could expect still only 72.6 years of life (World Bank, 2019). Regarding the medium age, as an important indicator of the ageing society, Hungary had an indicator of 42.3 years, standing at No. 28. position globally (CIA World Factbook, 2019). It is important to note that according to the CIA Factbook rankings, the first 35 places are taken mostly (with the exception of micro-states, like Monaco or a few Caribbean islands) by European countries plus the unbeatable No. 1. Japan, but followed closely by

Germany and even Italy, Greece or Slovenia. The ageing society is undoubtedly posing a real challenge to the developed countries in the upcoming years.

To put the whole demography analysis in a broader framework, Japan's population, like most other countries' remained relatively stable for a long period, from the eighteenth century until the mid-nineteenth century, around 30 million, a population that is lower than the number of inhabitants nowadays in Tokyo greater area. It was not until the Meiji Restoration after 1868 that population started to rise steadily along with the building of a modern nation-state. It reached 60 million in 1926, and surpassed 100 million in 1967 (Statistical Handbook of Japan, 2018).

So it comes as no surprise that until the 1970s when the total fertility rate first dropped below the reproduction rate, the government was rather concerned with the overpopulation problem than the decline of the population. Nevertheless, the 1980s brought about a sharp turn in the trends and population started to decline sharply. Working-age population peaked in 1995. According to the latest population census in 2015, population of Japan stood at 127.09 million (ibid.) but due to the steady and accelerating decline of about 500000 people per year, this number is considerably lower since then.

If we take a closer look at the post-WWII population growth, the basis was relatively low in terms of life expectancy when compared to developed countries at that time – nowadays Afghanistan or African states have similar life expectancy data, although this comparison is naturally anachronistic and therefore distorting. It is still obvious that Japan experienced considerably larger changes than developed countries in terms of life expectancy. For example, during the 5 years between 1950-55 there has been an additional 5.71 years improving women's life expectancy, compared to 2.13 or 1.64 years in the case of the UK or the US (Klenk et. al., 2016).

It should also be noted that Japan was also still ahead of its economic miracle, and was also in the middle of a fast unfolding population boom just to be quickly followed by a dramatic decline. Post-war reconstruction boom, and the Korean War boom could not slow the steep fall of TFR after the second World War. As soon as the country entered the 1960s, total fertility rate (TFR) dropped even further while life expectancy and median age of the population steadily rose.

This was the period of the “take-off” in terms of economic developments, as in 1960 a ten year plan to double national income was implemented and GDP grew at an astonishingly high average of 11 % every year, doubling GDP in just six years (Aoki, 2012). The fact, that total fertility rates kept steadily declining during this period, were viewed as a necessary and rather positive phenomenon that accompany and at the same time enhance the ongoing economic changes. So it was not until the 1990s that both the government and the wider public became aware of the demographic bomb and its effects. Furthermore, as discussed above, the population boom has been a relatively new phenomenon in historical terms and in this regards, even **the sharp decline in historical perspective can be also interpreted as an accelerated, but still rebalancing process.**

## Demography and Modernization

Initially, i.e. during the decades of huge economic expansion, the steadily declining birthrates were considered as naturally accompanying the transitions from a relatively underdeveloped nation into an industrialized and developed one. Generally speaking, high poverty and high infant mortality and birth rates, along with low life expectancy and an underdeveloped health care and social welfare system undergo similar transitions and processes during the development path and more developed countries will have low infant mortality, birth and overall mortality rates, while life expectancy is enhanced by the social and economic developments, and as a result of a more developed social security system, children are less considered as necessarily supporting older family members, either.

Japan followed exactly the above described pattern but substantially faster than other countries along their modernization. Immediately after the second World War, total fertility rates were still very high, staying at 4.5 births per woman but rapid changes meant that till 1973 TFR was slightly above the replacement rate of 2.1 percent (World Bank, 2019) which is considered as the minimum ratio to maintain population equilibrium and enable demographic reproduction. The all-time low level of TFR was reached at 1.26 in 2005, fertility rate has been around 1.4 since then (World Bank). In Hungary, TFR hit all-time low in 2011 at 1.23 and since then has slightly recovered and is constantly rising, standing at 1.53 in 2017.

Still, as mentioned above, it was not until the late 1980s – early 1990s, coinciding with time of the economic crisis, when the government realized that demographic changes are too fast and endanger not only the sustainability of the pension system through the rapidly growing dependency ratio but even economic growth, by the shrinking labor force on the one side and shrinking consumption and demand on the other side. The year 1990 was a landmark as the total fertility rate fell to 1.57% that was even lower than in 1966 when there was a sharp fall to 1.58% but TFR returned to higher levels afterwards. The reason for the considerable drop in the year 1966 was very special as it was a particular year of the „fire” horse according to the Chinese zodiac called “**Hinoe-uma**”, in which parents prefer not to have children based on traditional beliefs in a fear that the child would have a bad personality. So a fertility rate falling below that of a Hinoe-uma year that happens only every 60 years in a non-Hinoe-uma year was very alarming and gained public awareness.

## Reasons for the Failure of Government Policies

The social alarm and concern lead the government to create and implement diverging pro-natal policies ever since then. But TFR continued to decline and life expectancy continued to rise. The “1.57 % shock” therefore acted not as a landmark in terms of changes in demographic trends as government policies proved to be ineffective ever since then, but as a starting point for policy interventions, no matter their success.

Taking a look at the wide range of plans, programs, initiatives etc. since the 1990s, a design and timing similar to the central plans for the economy becomes visible. Every five years from 1994 the government has issued a strategic document<sup>2</sup>, all of which are developing five-year plans for supporting childbirth and eliminating major obstacles that families might encounter. Further documents also indicate the strong government determination to initiate demographic changes, but all efforts have been in vain.

The reason for the failure of the government initiatives lies to a great extent in the changing social patterns, values also mentioned under the general analysis of the social crisis and social changes. Now we consider the specific elements having an effect on demography.

All policy measures target the original family units that have two working parents and are married. So policy makers bear in mind the social set-up that they consider ideal and try to design solutions for their problems and challenges concerning the development of childcare facilities, or creating a work-life balance. These measures tend to forget the changing patterns of the society where the major problem starts at a very different point: young people tend to have absolutely no partners in their private life and remain life-long singles. It might also be an individual choice or at least psychologically interpreted this way, as the consumer society emphasising the positive side of remaining single and the high expectations concerning long working hours, or even the disproportionately high contribution to family life perceived especially by young women (UN, 2015) might act as a discouragement.

With the evolving technological development both online administration of personal issues, as well as virtual entertainment opportunities have become so versatile that retractable people can practically live their full life without being imposed to talking to other people, keeping an eye-contact, detecting emotions from facial expressions, and the lack of social interactions and skills helps the development of social anxieties and disfunctionalities. This is undoubtedly a disturbing global phenomenon but the Japanese society seems even more vulnerable as a result of its peculiar features concerning social norms and behaviour and a specific cultural background. The risk aversion behaviour goes as far as young people simply do not take the risk of getting into contact with another human being if communication and entertainment is so much easier and smoother with artificial intelligence. Many analysts point out that the reason why security and safety are so highly valued, lies to a large extent in the geological aspect of the position of Japan, which makes preparedness for the unpredictable and on the long run inevitable natural disasters highly important.

A recent extra 10-day holiday called the Golden Week to celebrate the abdication of Emperor Akihito revealed an interesting approach of the Japanese society both towards work and family. According to both surveys conducted by the newspapers Asahi Shimbun and The Japan Times, most people (45-46%) felt unhappy about the extra holidays and only about 35% felt happy. Many of them explained this unusual

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<sup>2</sup> The 1994 Angel Plan, 1999 New Angel Plan, the 2004 Child and Child-Rearing Support Plan, the 2009 Vision for Children and Childcare or the 2013 Plan to Accelerate the Elimination of Childcare Waiting Lists, among others.

feeling by the lack of available childcare services, and as they had no idea what to do in these extra few days (Lemon, 2019).

Another astonishing peculiarity is the new trend of **DNA matchmaking**. When searching for the actual app for citation, the discovery that already plenty of applications and sites offering this service exist, was similarly surprising. Such innovations certainly go viral and have global appeal to younger generations, still the Japanese people are definitely one of the best target groups to such scientific and alienated matchmaking.

A further aspect of the unsuccessful demographic programs lies in the way women are treated socially. The 40% wage gap has already been mentioned (OECD, 2017). But the fact that different names exist according to the type of harassment that women have to bear is also telling (Hidasi, 2019). Irking and harassment include “matahara” (mother's harassment, irking or making comments on mothers or expectant mothers), “sekuhara”, that is sexual harassment and “pawahara”, i.e. power harassment, the misuse of power. The latter one can be naturally targeted towards anyone ranking lower in hierarchy.

Women, who are traditionally treated inferior in the society, see an opportunity to gain independence if they stay single. The disproportionately high burden of housework (20-22 more hours per week than for men, UN, 2015) lying on women also makes childbirth less desired. A better life-work balance should be supported both by institutions but mainly by encouraging men to take a more active duty in family life management. Furthermore, the long-term male domination in family, business and politics resulted in an understandably suspicious position of women when politicians try to engage in their most private decisions they have just recently managed to take in their own hands. Especially sentences like “women are childbearing machines” or “single women without children are selfish” regularly stated by members of parliament or politicians, are considered counterproductive. Pro-natal policies therefore have to be very cautious and also targeting healthier work-life balance and promoting traditional values at the same time respecting those individual freedoms that have become important as a result of social changes.

## **Japan Inc.**

The following part of the paper examines change management and the role of social norms in the framework of the Japanese business model, or Japan, Inc. as it has been popularly named. The arguments point out that the business model that has been the key to the success of Japan in the high growth decades, has become less reactive to the new circumstances and challenges of globalization from the 1990s.

The traditional Japanese business model relied on its own national resources in the form of staff, partners and capital. Even the export-oriented industry was developed on the basis of a business model that was suitable in the 1980s but became less competitive by the time of accelerated globalization and increased vertical integration of global value chains. Japanese trade companies traditionally operated with their



**Japanese headquarters** making all important decisions, with all core managers being Japanese and all important decisions carried out in Japan.

The business model was relatively simple: raw materials were imported to Japan, where natural resources have been rare, then processed into finished goods and sold either in the domestic market<sup>3</sup> or exported. Export markets have been traditionally mostly Organization for Economic Co-operation and Development (OECD) countries where sales and marketing offices or trade houses were deployed, while emerging countries served as production sites and resource bases. Some OECD countries however served as exceptions as manufacturing was maintained for political reasons, typically to maintain local political support or to prevent trade-related frictions.

Most critics (e.g. Kazuhiko, in Funabashi, 2017, p. 90) agree on the fact that Japanese companies, trapped by their glory days, were slow to admit the necessity for change and have been even more cautious and therefore slower in the implementation. The **new era of globalization** from the 1990s developed a completely new environment, less centralized control for the company management and the production line, where products and services were planned, developed, managed, produced, marketed etc. in a much more delegated way.

Ironically enough, Japanese companies **overlooked the competitive threat** posed by the emerging Asian rivals, especially from China, South Korea and Taiwan similarly to the way European and American companies underestimated the challenges that Japanese companies meant to their positions at the peak of the Japanese development path in 1970s and 80s. By the 1990s they must have been aware of their geographical constraints and the changing regional and global environment, exacerbated by the recession of the domestic economy, there was still a constant reluctance to overview old practices.

The changing global environment also means that the battlefield of **global development is shifting** from developed countries **to emerging ones**. The high value added, high cost and therefore highly priced products of the Japanese companies are naturally losing battles under these circumstances. Technological development and quality control capabilities that Japanese companies are so good at are similarly not the most highly valued features in these markets and not enough to maintain superiority. In the case of consumer goods, sales of many products have been sluggish, with products falling into a state of half-benefit, when Japanese brands become increasingly inferior to Western products in terms of brand power while losing grounds against products exported by China or Korea in terms of price. A disturbing phenomenon is that this is happening even in the Asian region and in markets where Japanese companies have previously dominated. The Ministry of Economy, Trade and Industry compared the share of sales in the Asia-Pacific region for major global companies in Japan and overseas in 2006 and 2013. The share of Japanese companies has dropped

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<sup>3</sup> We tend to forget that nevertheless the economic slow-down, till 2010 when China overtook Japan, the latter was the largest economy in Asia and the second largest to the United States in the world.

from 49% to 40%. During this time, although the sales of Japanese companies themselves increased overall, the average annual increase was very marginal, only 3.6%, especially compared with American companies (11.2%) and European competitors (10.8%) (METI, 2015).

In emerging countries, there are **large regional differences** among countries as well as within the countries themselves, and the pace of change is faster than in developed countries. In addition, even basic physical and telecommunicational infrastructures are not ready, in order to gain access to the markets and the natural resources as well as to establish long term economic relations based on mutual benefits and trust, these markets have to be handled in the more complex framework of developmental policy. This fact was realized by China that created the Belt and Road Initiative to meet exactly these challenges. Furthermore, official data and information in these countries are either lacking or not credible enough, laws and regulations are underdeveloped or unstable, so those business practices that might have worked perfectly in a developed country need flexible reframing and fast adjustments. In this regard, the business culture and logic of Chinese companies doing business in developing countries seems to be more in line with the necessities to be successful in such an environment, and not easily followed by not only the Japanese but by the European or American counterparts, either, at least partly also due to the stricter domestic business regulations and climate.

A third element of the changing global environment is the growing **need for local expertise**. It is considered natural that under the growing competition companies develop products that meet local needs, improve their brand power in specific markets, target marketing strategies, and devise particular ways to sell products touching customers' ridgelines, and even use a culturally well-founded approach including a language that enable them to negotiate equally and also effectively with local business partners. To achieve these goals, it is essential to delegate authority to overseas subsidiaries, to enable more prompt decision-making and quick responses, and to hire and fully utilize local talented human resources. As a combination of these efforts, companies need to simultaneously promote thorough governance of overseas subsidiaries. So the most important issues in the management of overseas subsidiaries include how to ensure the balance between localization and control from Japan. In this respect, Japanese headquarters still have to reframe previous practices to create more targeted responses and have a higher level of management flexibility and adaptability.

A counter-example to the necessary adjustments described above is the so-called **Galápagos syndrome**. The term was originally coined to refer to a very specialized and unique system or feature that was developed in a relatively detached environment and therefore lacks compatibility with other systems used outside of the "reservoir". The name naturally refers to the Galápagos islands where Charles Darwin encountered a wonderfully developed and uniquely endemic flora and fauna that his theories of evolution could be based upon. The term in this context was originally used for the Japanese 3G mobile phones that developed a

variety of features specialized for the domestic market, including miniaturization that was favoured so much by Japanese manufacturers and consumers alike, but at the same time, were totally different from any other devices outside of Japan and therefore incompatible with any other systems.

Global competitors quickly realized that they had to customize their products to the local specifications and consumer needs alike, while Japanese electronic manufacturers for a long time ignored the global possibilities, focusing on the Japanese domestic market. This way of approach, besides the Galapagos syndrome, is also referred to as one-village mentality or home market bias. Naturally, not all Japanese managements failed to understand the urgent need to adapt to business opportunities and requirements outside of Japan, Sony for example has regained its reputation in the field of mobile phones, but the adaptation process has been generally slow.

## **Change Management in the Framework of Japanese Corporate Culture**

Japan has been famous for its unique company system including large, integrated conglomerates. The so-called zaibatsu (meaning “property agglomeration”) emerged first, creating a set of interlocked and closely integrated commercial and financial enterprises, in the hands of a few prominent families. The four largest and well-known zaibatsu – the Mitsui, Mitsubishi, Sumitomo and Yasuda – maintained their dominant market positions even after the transformation happened and the conglomerates continued to operate as “**keiretsu**” (meaning “system”, or an order of succession) after the second world war.

Welfare losses arising from oligopolistic pricing as a result of the keiretsu system have been widely analysed suggesting that the oligopolistic market has not substantially distorted the allocation of resources or national income distribution (Flath, 2005, p. 254). Flath also points out that the keiretsu system shows remarkable similarities to the patterns of industrial concentration in other developed countries, including the United States. But a less measurable and tangible result of the keiretsu system is that the large concentration also allows firms to exert substantial pressure on policy making and legislation resulting in weakly enforced anti-monopolistic laws and protectionist policies prevailing under all circumstances. The divergent development of Japan and the US, where a similar pattern of family-owned large conglomerates (i.e. Carnegie, Rockefeller) emerged in a historically parallel era in the wake of modern capitalism shows the difference in the approach of the central authorities as well as the importance of trust, personal connection, long term relations and established ties in the Japanese culture, naturally affecting the corporate culture deeply. Furthermore, the stable and largely concentrated company structure along with the above mentioned values and norms also shows relatively less openness and willingness to change either the structure, the management operation or previously successful strategies.

In order to understand the change management within the framework of the Japanese company system, we have to introduce the term “**kaisha**”. The Japanese word “kaisha” means simply company but with special

connotations, suggesting an inward looking system, something that is set in an “established” way (Kazuhiko, in Funabashi, 2017 p. 93.). This is at the same time most probably one of the most specific and most important cultural characteristics of Japan connecting practically all areas through this philosophical approach. Another characteristic that can be also widely attributed to a number of fields, and originating in religion, is the desire to create a “harmony” - under harmony the Japanese values understand a balance between the community and the individual that is basically different from the individualistic approach of the Western civilization – we discuss this in more detail later.

The most defining characteristic of the kaisha model is therefore the decision-making process that is largely influenced by the desire to achieve and maintain **internal harmony**. Therefore, the opinion of the divisions is coordinated in a bottom-up process that can be considered by Western corporate governance time-consuming. In this case, all related stakeholders meet face-to face and the goal is to formulate a final consensus that is acceptable to all parties. After the slow decision-making process, the implementation is already usually speeded up as all parties have agreed before and as a result, can identify with the decision.

This philosophy is still visible especially in times of difficulties and controversial options, typically brought about by an outside pressure. The methodology has a number of advantages including the smaller chance to make erroneous steps, increased mutual trust and harmony within the company, but at the same time, it not only slows down the process but also typically downscales any attempts to make decisive steps and changes. As long as business conditions change at a slow, continuous and relatively predictably pace, this type of coordination creates relevant responses by enabling careful but precise and internally supported moves. The major problem of both the crisis that hit Japan at the end of the 1980s, as well as the changing nature and challenges of globalization was that these new phenomena would have required speedy, targeted, radical and in many cases also unpopular and even controversial decisions.

From time to time, there are buzzwords and ideas popularized by mass media – recently such a buzzword has been “**monodzukuri**” (Tanaka, 2017). The Japanese language is similar to the Hungarian in the sense that words often have different, symbolic layers of meanings. Mono-dzukuri means the act of making a thing, i.e. craftsmanship or manufacturing, but it also entails the spirit of a sincere attitude towards production, referring to the know-how and technology but also the underlying innovation, and going even one layer further, it reflects on the very success of the Japanese manufacturing industry. The buzzword symbolises a spirit of innovation that can be used under the current circumstances to create a similar success to the original period and idea of monodzukuri. So the need for innovative technologies, management styles and the reframing of multiple aspects of the original strategy that led to the amazing success of Japan, is widely acknowledged in the society.

On the other hand, foreign analysts often display amazement at evidence showing that nevertheless the “crisis” years, the already three decades that have been labelled “lost” by the Japanese media and the people

themselves, Japanese companies still maintain their old ways in management. Considering this reluctance to change, a significant part of Japanese society supports keeping the traditional practices, presumably because that is where their social power originates from. These groups counterinterested in reforms might be important in their proportions but even more important in terms of their power and influence, compared to the rest of society. Another explanation is that elements of the Nippon management system are so interconnected that it becomes hard, if not impossible, to change one without affecting the others – which creates further obstacles to significant transformation.

## Conclusion

In order to draw relevant conclusions, it is necessary to step back and take into consideration a broader, historical perspective. From this aspect, the almost three decades of recession, stagnation, inadaptability, reluctance to change, several aspects of deteriorated social capital etc. do not mean a long period of time, neither indicates any “reluctance” rather the opposite: a wise, and calm distancing from the problem to give time for cautious considerations about different options. Japan has survived on the edge of a large Chinese civilization and an equally dangerous Western civilization. From the Meiji era the key to its success has been building a bridge between the West and the East and Japan still continues to thrive as an independent civilization.

The views presented here were essentially Western approaches to the question. The Japanese society, political leadership and business management will find its own answers to these challenges. Some findings however, can be relevant to any points of view. The importance of social capital, rebuilding trust and solidarity in a rapidly changing economic and much more importantly, technological and social environment is more than crucial.

Japan for a long time enjoyed its position as a **trailblazer**. Nowadays, if taken from the point of view of ageing society as well as technological development and its alienating effects, Japan can be again considered as ahead of many societies. By finding relevant answers, there is again an important chance to become a role model.

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