Exploratory on the Social Capital and Private Saving Theories for Integration of Voluntary Contribution to Pension Scheme in Tanzania

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ABSTRACT

The study reviewed two theories, namely Social Capital and Private Saving. Both explain the significance of voluntary contributions to the pension scheme. They used the approaches to offer insights into how voluntary contributions towards social security schemes are built up and their implication to informal sector actors. The study reviewed the social capital and private saving theories’ effect on voluntary pension scheme contributions. The two approaches were critically assessed on their relevance to voluntarily contributing to a pension scheme in Tanzania. They showed to embed important sociocultural attributes such as networks, mutual support, and norms that facilitate cohesive support between actors (individuals and organisations) governed by standards and trust that enable them to pursue shared goals and objectives for mutual benefit. Theories showed an emphasis on workers contributing to a pension scheme for the betterment of their retirement age. This is a critical time since senior citizens cannot continue to work due to old age.

Keywords: Social Capital, Private Saving, Pension Scheme, Voluntary Contribution.

I. INTRODUCTION

The study describes theories on people’s way of living which are considered in two utilisation phases. People must save and utilise the savings when unable to work (Wango, 2022). This ensures that people continue enjoying better life even if they have stopped working to earn an income (Willmore, 2007). People must save for future benefits when they are young and full of energy and potential (Tungaraza, 2002). The wage will be paid in return for their labour supply, which will determine the amount of savings, whether the wage is high or low. The individuals are retired and utilising the savings made (Modigliani, 2005). This needs to be understood by individuals so that they can plan. This approach has its strength and weakness; the following are the strength mentioned by Rwegoshora (2016) namely, the government has less burden to cover retirees, the country deepens its capital to grow the economy, there will be no investment diversion, and people strive to earn big to save big and have plenty to use.

The increase in the economy will bring a better future to the individual who lost their working ability, whether by age or incapability (URT, 2013). The funded pension schemes may motivate investments which may later increase the growth of the national economy (Mboghoina, 2010). The return from investment from the funded pension schemes will later reduce the costs of running a particular pension scheme (Wango, 2022).

Cremer (2009) examines a model with variable retirement where individuals or workers face the challenge of insecurity for the duration of their working lives. It should be understood that this model being explained here only applies to the funded social security pension schemes. Every individual working or being employed faces a challenge because the work duration is unknown (Wango, 2022). On the other hand, the weaknesses of the model by Cremer (2009) are that the model is only applicable to funded social security pension schemes. Pension schemes which are not funded cannot use this model. Another weakness is that, under this model, saving is not permitted, causing the individual to be low relevant to informal or low-income in third-world countries depending on government benefits only (Wango, 2022).

Most sociological theorists include some account of social networks as a framework to analyse and understand social structure. Often, these are called theories of action (Parsons, 1937; Coleman, 2000) because they attempt to account for the actions and decisions of various actors in a community. Social network systems are usually equivalent to density in networks, generally associated with social support, cohesion, and embeddedness (Rwegoshora, 2016).
Intense social networks are characterised by trust (Parson, 1937). It is assumed that if you act in a certain way towards the other, the other will respond to satisfy your needs. Note that the relationship takes place in time. The self-moves towards the other, and then the other reacts (Wango, 2022). In the language of economics, this is a discounted situation. In the perfect case of trust, there is no discount at all. The self gives what the self gets back in return, often because the time lapse is negligible (Kashaga, 2013). In the simplest case, in a dyadic relationship, it is assumed that if you give the bus driver the money for a fare, he will accept it and not throw you off the bus. This situation is frequently described as one of cohesion and social support.

We can turn the concept of solidity in social networks on its head, as it were, and look at the holes in the network, the lack of connectedness rather than cohesion. This idea is associated with the work of Burt in his influential Structural Holes: The Social Structure of Competition (Burt, 1992). Focusing on the holes rather than the connections draws attention to efficacy rather than safety. In competitive situations, other people’s cohesion is a disadvantage. Persons embedded in a dense, cohesive network all have the same information, each is constrained by the other, but at the same time, one cannot be played off against the other (Wango, 2023). On the other hand, if a person is a bridge between more substantial parts of a network not connected and, thus, characterised by structural holes, the person gains information from diverse clusters that do not have direct access to one another; one node can be played against the other. Players with relationships free of structural holes at their end and rich in structural holes at the other end are structurally autonomous.

These players are best positioned for the information and control benefits that a network can provide.” (Burt, 1992, pp. 45). For this reason, social networks have a direct and indirect relationship between what people can do and achieve as they are significant for the social and economic performance of the group, community and national level (Bastaïenens et al., 2005). An individualistic perspective (“pathologies theory”) puts forward a situation of living in poverty from an ‘individual inadequacies’ (Chimhowu, 2009). In this view, an individual is held responsible for his /her actions that expose or make him/her poor. It is considered an individual’s responsibility to ensure that he/she is not in a poverty trap. Being poor means, one is lazy and incapable of doing much for his life. However, this idea has been criticised, and I subscribe to this critique; in that, it does not consider structural obstacles, which limit an individual from taking advantage of opportunities to get out of poverty (Wango, 2023). Then again, there is a ‘culture of thinking poverty’ in which its centre of attention is family and community as the root cause of poverty (Chimhowu, 2009). The main argument is that poverty duplicates itself through socialisation in the family and community where values, beliefs and skills are imparted. For example, a child born into a low-income family will likely inherit values and beliefs imparted to him, which will lead to the reproduction of poverty. Thus, a standpoint is that poverty is based on social relations within social structures.

Williams (2012) states that poverty is a relational situation. It occurs in the course of action of existing social relations and the unpleasant terms of inclusion in the socio-economic systems. In this view, poverty is generated through social and economic relationships within community structures, which produces an adverse situation. “Poverty is not a characteristic of a certain group of people; it rather characterises a particular situation in which people may find themselves at a given time” (Bastaïenens, 2005). However, poverty is produced by the characteristics of these relationships rather than by individuals oppressed through them (Williams, 2012).

In another way, Laderchi (2003) puts forward monetary, capability, social exclusion and participatory a description in understanding poverty. This throws a discrepancy in viewing poverty leading to confrontational approaches, as they lead to differences in opinion. Divergence in understanding leads to the disparity in poverty reduction strategies given that it reflects differences in opinion of what makes a good society or life (Wango, 2023). A monetary approach that is an understanding of poverty from an income characteristic appears dominant among other approaches (Laderchi, 2003; Chimhowu, 2009; Green & Hulme, 2005). This throws in a question as to whether monetary approaches tell the same story as non-monetary approaches to poverty. One must acknowledge that poverty is a multidimensional phenomenon to answer this question. Even so, the monetary approach defines poverty as narrow (Chimhowu, 2009). That is why Hulme notes that what makes up poverty is neither “obvious” nor “universal” (Hulme, 2005).

A. Social Capital Theory

The concept of social capital is not new; it can be traced back to 1916 when Lyda Hanifan wrote an article on local support for social networks (Portes, 1998). She differentiated social capital with material things such as buildings (real estate) and money by showing that social capital makes material things more meaningful in people’s daily lives (Wango, 2021). However, the modern use of the term "social capital" can also be associated with Jane Jacobs’ (1960) works. Although she did not explicitly use the term social capital, she explained the value of social networks in her article The Death and Life of Great American Cities, Jacobs (1960) emphasised the necessity of protecting the social capital of the cities. She argued that the complicated or rather sophisticated network of human relationships that builds over time provides...
mutual support in times of need, including ensuring the safety of the streets and that of people performing their responsibilities. She advocated diversity in society and called for conducive environments to interact efficiently, such as community markets (Jacobs, 1961). The social capital theory is built upon the rational choice theory that entails networks and the resources that a person can access through networks (Keizzi, 2006). Social capital can function as the means and support for resource mobilisation that can lead to a better condition of life.

According to Fukuyama (2001), social capital is the informal norm that promotes *mutual support* and *cooperation* between two or more individuals. The models that underpin social capital can range from reciprocity and trust between two friends to complex and elaborately articulated doctrines like Christianity or Confucianism. Social capital includes how informal actors support each other by living with *faith, harmony, and love* (Wango, 2022).

However, according to Putnam (2009), the social capital concept comprises three components which are; (i) moral obligations and norms, (ii) *social values* (especially trust), (iii) and *social networks* (mainly voluntary associations). For this study, both Fukuyama’s and Putnam’s definitions are adopted to refer to the meaning of social capital. Putnam’s main argument is that social capital creates a sense of bonding that people operate in the form of cultural and economic assets that they invest in their community's affairs (Putnam, 2009). While economic assets can be viewed as the financial ability to contribute to social issues, such as provision informal support services, cultural assets can be summed up to include involvement in collective events and topics such as weddings and funerals. The authors argue that the connection between the individual and the society forms a social bond that creates the capital facilitating helping and interdependence.

This study uses this theory to explore how social capital helps and facilitates voluntary contributions for mutual support among informal economy actors. It is known that the attributes of social capital, such as trust, reciprocity and networks, are foundations on which informal actors such as vendors and street traders form strong groups or associations that can support or regulate one another. Political scientist, Robert Salisbury (1969), argues that social capital was crucial in forming and regulating interest groups and bridging achievement blocks. Salisbury further argues that on most occasions, people tend to invest their money or other material things in others with the expectation of reaping a benefit. These benefits can be either material or non-material in the form of solidarity, where norms, trust, and integrity are fundamental to bringing society and the community together. However, he stresses that for a group to survive or even thrive to excellent achievement, there must be a well-maintained and sufficient balance so that the roles of receiving the benefit are exchanged to ensure continuing participation from both parties (Salisbury, 1969).

Again, the advantage of having solid networks would stimulate better benefits.

In his work on the forms of social capital, sociologist Pierre Bourdieu in the 1980s showed that individuals acquire different positions in a complex social dimension defined not only by their social class but by every single contribution they make to maintain their social relevance (Wango, 2022). He further stresses that though this capital may take time to form, it can potentially produce profit in the long run, and sometimes it even reproduces itself at the same rate or in an expanded form. Therefore, in this respect, Bourdieu concludes and underlines the value of social networks (Bourdieu, 1986). During the same decade, sociologists James Coleman and Scot Wortley widely adopted and further popularised the concept of social capital (Coleman, 1988). During the 1990s, the idea of social capital gained momentum and became very popular as scholars from other social sciences started to apply it. These include Robert Putman and Francis Fukuyama, who became famous after introducing discussions and debates on social capital in the political and economic fields.

The two authors published many works collaborating with scholars such as Robert Leonard in 1993. Their publications emphasise the importance of social capital in maintaining democracy and achieving high institutional performance (Putman, 1993). Likewise, towards the end of the decade, the works of Fukuyama contributed significantly to the growth and spread of the concept of social capital. For instance, Fukuyama (1999) argues that social capital is an immediate informal norm that promotes cooperation between people (Fukuyama 1999). Later, the World Bank (WB) adopted social capital to focus on their social research studies. The WB argues that the *quality* and * quantity* of society's social interactions matter, shaping norms embedded in social capital.

The latest developments in debates tracing the history of social capital were noted in 2000, with the launching of a famous book on the collapse and revival of the American community by Robert Putman (Putman, 2000). Regarding experiences in the USA, Putman explains how society's busy schedules have taken away people's access to social capital and a reward acquired when one effectively participates in community activities. The informal groups feature informal social organisation, including social trust, networks, and norms that enhance interrelationships for mutual benefit (Putnam, 1996). Through informal groups, communities develop trust, reciprocity, mutual respect, and bonding in issues of common interest. Communities are social entities built upon individuals, families, and friends, making a social unit for fellowship, sympathy, and goodwill (Simmel, 1971). Social capital motivates individuals to cooperate in given circumstances; it assumes that individuals maximise profits and strategy to achieve a shared goal (Moulin, 1995). On the other hand, social capital, which can be achieved through associations and cooperation, can help solidify individual relations by generating and establishing personal expectations.
It accepts the principle of rational purposive action and attempts to show how it works in conjunction with a particular social context. In this context of three case studies of bodaboda association, food vending networks and fishing groups, attributes of social capital theory such as trust, networks, reciprocity, mutual support, solidarity, and norms appear relevant because, among other things, they help engender appreciation and the importance of bonding actors to pull together their contributions in kind and cash banking on it to make a difference in addressing collective and individual challenges.

B. Private Saving Theory

This theory was developed by Martin Feldstein (1974), who showed that social security schemes affect private contributions as people save for several reasons to provide for unforeseen events, to build up estates, or to pay for children's school fees and other educational requirements or retirement. People must save in the first phase and utilise those savings in the second phase. The objective of pension funds or contributions in this theory is to ensure that people continue to lead quality life when they have stopped working or are indisposed and unable to earn an income. This implies that workers knowing recognises that they will cease working upon retirement or when they reach old age. Therefore, meeting their needs during retirement will be daunting if social security schemes do not cover them. Consequently, employees must save during their working tenure, such as investing their savings in real estate, such as building houses (Keizi, 2006). They can then rent out these buildings and earn an income.

This approach is described as the lifecycle model of savings (Wango, 2022). Wango (2022) argues that it is undoubtedly easier to save money when one is young and energetic before retirement. This means that before retirement, one ought to invest diversely, for example, in building rental houses, opening a business, and investing in bond securities, among others. These investment projects can help a retiree earn income during old age. Alternatively, one can contribute to social security, which is more feasible among salaried persons. Social security supports private contributions based on the view that people save for many reasons. For example, one reason for saving is to have adequate financial resources during retirement. Workers consciously recognise that not only will they be unable or prefer not to work when they are older, but that in the absence of social security schemes, their consumption during retirement will depend on their resources (Keizi, 2006). They usually build up savings on tangible assets such as housing and financial support (Mboghoina, 2010). Such savings are drawn during retirement to finance their needs (Wango, 2021). Active workers save, and retired workers consume more than their income. Hence, in a growing economy, aggregate saving depends on the balance between protection and dis-saving (Maghimbi, 2002). The succeeding generation of workers is generally more prominent and affluent and holds more than the preceding generations. Therefore, saving by active workers exceeds dis-saving by retired workers, who are both fewer in number and poorer. Therefore, if individuals save less for retirement in anticipation of promised future benefits, social security will reduce their contribution. Total savings will also be less because the social security schemes do not use assistance to accumulate assets equal in value to promised future benefits (Keizi, 2006). Over time, lower savings result in insufficient capital stock, so aggregate income will also be lower.

However, according to Feldstein (1974), the theory has limitations, such as the problem of uncertainty between the current situation and lower benefits. These conditions may affect the amount of savings to be utilised. The study cases such as the bodaboda association, food vending network and fishing group implicate the country in tax systems and other monetary cases (Modigliani, 2005); for instance, changes in the tax system will eventually affect the utilisation of the savings.

Maghimbi (2002) argues that the number of workers kept during their working years depends on their desired level of consumption in retirement and the expected retirement age. The younger the expected retirement age, the higher the planned saving rate. That is, the earlier the worker wishes to retire, the longer the anticipated period of retirement to be financed by accumulated savings and the shorter the available working period to get these savings (Wango, 2023). Social security benefits are conditional on retirement. This may induce earlier retirement, resulting in a shorter work span and a more extended retirement period. Workers' likely response to this foresight would be to increase their savings during their working years. In the aggregate, this retirement effect of social security tends to increase the speed of capital formation (Cremer, 2009). Thus, the asset substitution effect of social security tends to reduce the rate of private contribution to the economy. The retirement effect of social security tends to increase that rate. The strength of these opposing forces is that saving may increase, decrease, or remain unchanged due to the introduction of social security schemes. For most economists, the conventional wisdom had been that the asset substitution effect probably outweighs the retirement effect, implying that, on balance, retirement saving is reduced by social security (Keizi, 2006).

Other motives for saving, increasing concern, exists that saving for retirement has been over-emphasised and keeping meeting contingencies or leaving an inheritance has been under-emphasised. It reduces the worker's need to keep protecting against the contingencies of the worker or spouse outliving retirement resources or inflation eroding such resources.
Unlike ordinary savings, social security wealth is illiquid and does not protect against emergencies occurring during the working years (Maghimbi, 2002). As a result, it may be unattractive to some people, especially poor social groups. The theory assumes that individuals have a definite, conscious vision of their economic future-lifetime earnings, interest rates, family composition, and tastes for consumption—and make rational, aware, and complex decisions in developing and modifying a lifetime plan of spending savings (Mboghoina, 2010). Many social scientists are sceptical that individuals can make such decisions (Wango, 2023). Workers would accumulate only small amounts of ordinary retirement assets without a social security system. A dollar-for-dollar substitution of social security wealth for expected wealth cannot occur (Salisbury, 1969).

Further, some social scientists have hypothesised that social security may increase retirement savings (Cremers, 2009). This explanation implies that workers’ preferences for spending and protection are not independent of their resources. This view is inconsistent with the traditional economic model of behaviour underlying the life-cycle hypothesis (Wango, 2022).

However, before the advent of social security, many retired workers relied on the support of their children, who in turn expected to be supported by their children (Wango, 2022). Introducing social security may substitute mandatory public transfers from young and old for voluntary private transfers (Mboghoina, 2010). In that case, they may increase such transfers to compensate for the taxes their children pay to finance the retirement benefits of the older generation. If such transfers are made in financial bequests, workers save less for retirement but more for endowments (Keizi, 2006).

Theoretical arguments concerning the effect of social security on private contribution if workers finance their social security and retirement expenditures out of accumulated savings and if the age at which workers retire is not affected by participation in a social security programme, then introducing a pay-as-you-go social security system will unambiguously reduce aggregate savings (Wango, 2022). Workers will substitute social wealth for ordinary wealth as they accumulate assets for retirement. In contrast, the pay-as-you-go social security schemes will not get assets to offset this reduction in private contribution (Mbuni, 2023).

Suppose workers finance retirement expenditures out of accumulated savings but are induced to retire earlier by social security. By retiring earlier than anticipated, workers will have fewer working years to get savings and more retirement years to disserve, requiring more savings. Suppose workers finance retirement spending out of accumulated savings and have other motives for protection, such as providing for contingencies or leaving a legacy, even if saving for retirement is reduced (Wango, 2022). In that case, the total private contribution is diluted. In the protection, it is less likely that workers will change their saving patterns in response to social security, and if they do, the direction of change may be counter to economic support. To the extent that workers finance consumption in retirement from voluntary transfers from children, not out of accumulated savings, participation in social security does not reduce private contribution (Wilmore, 2007; Wango, 2022).

A similar conclusion is reached if parents increase their bequests to children to offset the tax burden imposed on the younger generation by the social security schemes (Wilmore, 2007; Mbuni, 2023). All in all, theoretical considerations do not unambiguously predict the effect of social security on private contribution. It is theoretically possible that social security increases have no impact or decrease in retirement savings.

Empirical evidence must be examined to measure the existence and size of any impact of social security on protection. The study seems relevant from the preceding: saving, networking, culture, uncertainties, trust, norms, reciprocity, integrity, and policies.

II. THEORETICAL REFLECTIONS

The theory presented in this thesis provides insights into some of the variables and attributes that guided the research methods and the overall research process. These were used to understand and address social security options for the informal economy actors. The theories involved in this study were social capital and private saving theory. Table I presents the implications of the theories.

The case studies show that social capital was critical and was mobilised by the informal sector operators to meet their social security and well-being needs. Jane Jacobs (1960) propounded that the social capital theory is relevant for the safety and protection of society. It fosters working together to maintain peace and security whereby members attend to security issues communally, not individually. Furthermore, social capital promotes mutual assistance and reciprocity among group members with a common goal (Putnam, 1993; Coleman, 1988). For instance, individual operations of bodaboda and food vending organise and establish associations and groups to pull their resources to support each other. Social capital is maintained and built through informal and formal interactional networks.
The bond among the informal actors has been seen through the literature as critical, supporting networking, poverty, trust and mutuality, socio-cultural norms, and group saving. The study expounded on the importance of theories in social security to individuals, households, and the country’s general economy. It also reveals that the two theories are essential for developing its economy and welfare. It offers income protection for all social contingencies that assist individuals not entirely in poverty. The study also identified the main actors essential in social services, including family and local solidarity networks such as bodaboda associations, fishing beach groups, and food vending networks. All these were identified to have a significant role and responsibility in ensuring an adequate pension scheme.

A. Integrating Social Capital and Private Saving Theories

People must save in the first phase and utilise the savings in the second phase. Pension in this model aims to ensure that people continue enjoying a better life even if they have stopped working to earn an income. This implies that workers knowingly recognise that they will not be able to work when they reach their old age. Therefore, if the social security system does not cover them, their spending during retirement will depend on their efforts and resources. This, therefore, requires workers, during their working tenure, to invest their savings in real estate (real asset) or stock and bonds (financial asset). Due to economic consumption, these assets are drawn down to zero during retirement. This individual behaviour is described as the lifecycle model of savings (Wango, 2023). This means that whilst in active work, one ought to save in diverse income-generating activities such as building rental houses, opening businesses, raising cattle and agriculture. The investment helps retirees during old age rather than contributing to the social security scheme alone and possibly encountering payment delays.

III. CONCLUSION

The bond among the informal actors has been seen through the literature as critical, supporting networking, poverty, trust and mutuality, socio-cultural norms, and group saving. The study expounded on the importance of theories in social security to individuals, households, and the country’s general economy. It also reveals that the two theories are essential for developing its economy and welfare. It offers income protection for all social contingencies that assist individuals not entirely in poverty. The study also identified the main actors essential in social services, including family and local solidarity networks such as bodaboda associations, fishing beach groups, and food vending networks. All these were identified to have a significant role and responsibility in ensuring an adequate pension scheme.

REFERENCES


Second Generation Reforms.


