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SEMINAR ON MEASURING CAPITAL – BEYOND THE TRADITIONAL MEASURES
SESSION IV

Social capital: measurement and meaning¹

Submitted by the Organization for Economic Co-operation and Development (OECD)

INTRODUCTION

1. OECD work on social capital (SC) began some years ago with work which culminated in 2001 in the publication of *The Wellbeing of Nations*. This set out the case for extending the analysis of the role of human capital in economic performance, so that the role of networks, norms and values in growth and social cohesion would also be included. Since then, there has been some continuing discussion of how far SC can be measured and operationalised within OECD. For example, in November 2004, in the context of the first OECD World Forum on “Statistics, Knowledge and Policy”, a session was organised to discuss different approaches followed by some national statistical offices to the measurement of SC.

2. More recently, some work has been done within the Statistics Directorate on wellbeing/progress and within the Education Directorate on the links between education and civic and social engagement (CSE - encompassing many of the features of SC), including the possible development of indicators on CSE – see www.oecd.org/edu/socialoutcomes/symposium and a forthcoming publication *Understanding the Social Outcomes of Learning* (CERI 2007).

¹ This paper has been prepared at the invitation of the secretariat.

Moreover, in the context of the OECD-ECE-Eurostat working group on sustainable development the issue of social capital is under discussion.

3. To avoid duplications with other papers and reviews, this paper mainly deals with the relationship between human and social capital, but of course the issues are broader than this.

I. SOCIAL CAPITAL AS CAPITAL – A METAPHOR?

4. The emergence of social capital and other forms of capital has been chronicled many times. These extensions of the uses of the term have sparked continuing debate amongst a range of disciplines, about how tightly ‘capital’ is to be defined. Roughly speaking, a continuum can be seen as running from a view of capital as a purely economic term that can strictly be applied to physical and financial resources, to a very loose approach that allows it to be attached to more or less anything which can be thought of as an asset of some kind and/or yields some kind of return or added value. Human capital comes closer to physical capital in terms of the acceptance of it in mainstream economics and the number of points of logical coherence that it has in common with physical capital. The point at which the line between a literal and a metaphorical application of the term is to be drawn varies enormously; so does the weight that might legitimately be attached to any analysis involving the term.

5. Assuming for the moment that the concept of SC is not immediately disqualified on the grounds of an illegitimate use of the term ‘capital’, there are at least three reasons why its use might be seen as potentially valuable in relation to both economic and social policies:

- (a) it broadens the range of inputs to be considered in the processes which generate wealth and wellbeing;
- (b) it broadens the range of outputs to be used in measuring wealth and wellbeing;
- (c) it encourages a more dynamic approach, so that the interactions between different forms of capital are included. This is of course also a disadvantage in so far as it makes the measurement process more complicated.

6. “Capital” has a number of dimensions under which SC can encourage reflection and analysis, whether or not it is treated primarily as a metaphor. These also pose measurement challenges – which may or may not be considered too difficult for regular data-gathering purposes.

- (a) *Stocks*: physical capital is tangible and relatively straightforward to value. Human capital is harder to assess, let alone value; the usual approach to measurement is to use the levels of qualification achieved, or, even more crudely, the duration of education by years of schooling. If social capital is about relationships, the notion of a stock of relationships is not very coherent. On the other hand, some components, such as the level of trust within a community, have over time strengths and weaknesses that might reasonably be referred to as stocks. The stocks issue raises questions about decay. This is important in the light of growing interest in the notion of sustainability. Physical plant is written off, though at very varying rates of depreciation. In relation to human capital the notion of a half-life, borrowed from physics, has some currency, with shortening half-lives indicating the rapidity of technological and other change and the need for constant updating. In respect of SC, there is the striking reversal of the usual

pattern, with SC thought of as increasing rather than decreasing through usage, and conversely declining through non-usage.

- (b) *Ownership*: the owner of physical capital can sell it or give it away if they cannot find a buyer. Human capital is obviously different. People may pass on skills to others, and do so for money. But they do not thereby lose ownership of the skills – even though their value may be in some small measure diminished because of reduced scarcity. It is illegal to sell ownership of qualifications, precisely because they are awarded to an individual in respect of knowledge or skills acquired by that particular person. Social capital is different again. A crude and individualised interpretation of SC measures it in terms of personal contacts – the size of one’s address book. But norms and networks are not owned, but subscribed to. People cannot hand over their social capital to someone else, whether or not money is involved.

Social capital could be thought of as primarily a collective asset. It inheres in relationships, which requires at least two agents to be involved. Because of this inherent quality social capital is not alienable; those involved cannot even collectively decide to rescind ownership and pass it on to some other set of people. This does not conform to the traditional economic model in which a cooperative or a state can decide to sell off its assets.

- (c) *Returns*: human capital generates both private and public returns, though demonstrating it conclusively is still surprisingly difficult. It enables individuals to gain higher-paid jobs. It enables a company, and by extension a nation, to compete successfully on the economic front. It also appears to generate social returns in the form, for example, of improved health, which benefits both the individuals concerned and the wider collectively. Social capital likewise brings benefits to individuals and more broadly to communities and publics. It enables human capital to be realised, as the networks involved give access to employment opportunities. But SC is also itself a return, something to be valued in its own right.
- (d) *Distribution*: finally, the distribution of capital in its different forms is a major issue. There can be significantly different levels of social capital across groups, with differential returns. A high concentration of social capital in one group can change the value associated with it, from positive to negative, at least potentially, because the benefits it generates for insiders are outweighed by negative externalities. This is why the social capital of a whole community needs ‘bridging’ as well as ‘bonding’ components, i.e. relationships outwards as well as inwards to other members of the group.

7. These are not just intellectually interesting issues to consider. In particular, they point to how the effectiveness of human capital depends on the presence of social capital, so that skills and competences can be deployed and valued. The interaction between different forms of capital – multiplicative rather than additive – is a key feature. In terms of methodology, the acceptance of human capital as a major factor in economic growth will have run through some of the same issues before gaining acceptance as an essential tool of economic and social policy analysis, albeit one with still many very rough edges. As *The Wellbeing of Nations* argued, the notion of human capital has needed to be expanded and refined over time. Its measurement remains very imperfect; but no one doubts its relevance and applicability. It may be that SC is now following a similar trajectory, but with more complexities.

II. MEASUREMENT FOR WHAT?

8. The above discussion raises the issue of the purposes of measurement. From the OECD angle particularly, the great advantage of human capital has been its fruitfulness in expanding the analysis of reasons why some economies perform more successfully than others. Could the same be true of SC? The answer to this depends very largely on what models people operate with for approaching the analysis of economic and social performance. Putting it very crudely, if the search is for discrete independent variables which can be inserted into regression (or other) analyses to explain particular levels of performance, or differences in levels of performance, then 'social capital' as a concept is often likely to be both ill-specified and misleading.

9. If, on the other hand, the aim is to open up complex issues where multiple interactions are seen as inevitable, and different interpretations of these interactions as similarly inevitable and even desirable, then SC may be a far better guide to sound analysis and valid policy prescription. Bringing SC into the debate complicates matters rather than simplifying them. It does not supply a neat new tool of the same kind as previous tools but higher calibre, but entails a more multidimensional approach to analysis. But of course there will be no single figure answer to give as an end product of the analytical work, and this weakens its impact in the hurly-burly of short-term political decision-making.

10. The answer to questions about the measurability and utility of SC will depend in part on what the models are of the use of evidence in policy-making, and the definition of evidence itself. This is an issue which is currently gaining – or regaining – particular salience, at least in the education sphere. The legitimacy of much of what passes for evidence is being increasingly challenged, by different stakeholders in different ways. The range of information available has grown hugely, but the problem of assuring the quality of the information has also grown. And there is some fierce methodological warfare between those who would prefer a single hierarchy of evidence, with randomised control trials (RCTs) at the apex and those who have a more pluralistic view². All of this means that the reliability of measures and the feasibility of data-gathering are only two of the factors which go into the overall debate on the utility of SC.

III. LEVELS AND CONTEXT

11. What is the appropriate unit of analysis? Can we assess the volume/effects of SC for an entire nation, or can it only be done at more local or neighbourhood level? The problem of aggregation has been frequently pointed out; it is compounded by the interaction between SC at different levels. In 2005 Halpern argued that intervention can operate at three levels:

² This is to put the issue in polarised terms, which is arguably not helpful – i.e. there are supporters of RCTs who would also argue for pluralist approaches.

- (a) micro or individual level, through support for families, mentoring schemes, volunteering;
- (b) meso or community level: promoting vibrant local government, building community-based asset schemes, building networks between firms, employees and community, and using ICT to strengthen neighbour interaction;
- (c) macro or society level: promoting citizenship education, developing community credit schemes that reward volunteering, and developing genuine shared moral discourse to encourage mutual responsibility.

12. He goes on to draw up a quite complex 3-dimensional diagram for mapping different forms of SC to these different levels. Conceptually this is very helpful. However it does not necessarily make the task of specifying and gathering data clearer, especially when, as Halpern himself recognises, the interaction between these different levels is extremely significant.

13. That said, some broad comparisons have been made at national level, especially within Europe. The Statistics Finland paper does a good job in summarising some of the issues involved, and the concluding sentence of its section on the topic is suitably sceptical: “It remains unclear what the experts at the World Bank would expect from a country-level measure of social capital.” However some inter-country patterns can be discerned with reasonable plausibility. In 2006, Adam examined the World Values Survey, the European Values Survey and the European Social Survey: although he is sceptical about the Values surveys, nevertheless he concludes that there are four groups of countries discernible, especially the two at the extremes (high SC: Nordics plus Netherlands; low SC: many East Europe plus some Mediterranean). It is not clear that this is doing much more than confirming common sense, but Adam rightly stresses that triangulation, combining different types of data, is a very important target to aim for.

14. Awareness of context is always important in comparative work, but perhaps particularly so in relation to SC. This applies to the cultural or ideological attitudes displayed towards the concept. These range from the enthusiasm shown in at least some academic and policy quarters in the US to a quite widespread hostility in France. This latter stems from the general identification of social capital with ‘communautarisme’, which to French people of very different political persuasions signals an erosion of republican traditions of solidarity.

15. Context also covers perceptions of the state and its effect on SC. In some contexts, SC is seen as in some sense an alternative to or a counterweight to state provision, most obviously in the role of the voluntary sector. The state can be seen as the inhibitor of SC; conversely SC can be seen as some kind of safeguard against the inadequacies or even dominance of government. In others, notably in Scandinavian countries, the relationship is more of a positive sum game, with state and voluntary sectors seen as complementing each other; state support for citizens’ study circles is an example. Specification of the significance and impact of SC therefore depends on how the role of the state is defined and analysed, at different levels. SC may be a substitute or compensation for inadequate government; a challenge to the authority of government; or a positive complement – or, of course, a mixture of these.

IV. DO LABELS MATTER?

16. In one sense, it does not matter whether or not the term 'social capital' is actually used, as long as the phenomena it refers to are adequately specified. But it may matter considerably, in at least two contrasting senses. First, on the positive side: SC may be a way of bringing together quite diverse elements which are nevertheless closely interrelated, such that analysis of one of them cannot be adequately undertaken without the others being taken into account. This is the thrust of the arguments linking human and social capital. Using SC compels analysts and policy-makers to look at issues more in the round, and therefore, arguably, more realistically.

17. On the other side, it may be that lumping these different elements – trust, civic activity, political participation, network engagement, - together under a single heading is not just conceptually clumsy but misleading, because it encourages analyses which attempt to cover too much. Here holistic approach meets analytical edge. It may be that the way out of this is to look rigorously at what is meant by a multi-dimensional approach; and also to bring into play the notion of iterative triangulation: not only the use of multiple data types and sources, but their use over time in an iterative way, so that results and implications are continuously checked and refined.

V. SC AND PRODUCTIVITY: GENDER AND MIGRATION

18. An example of how SC can be meaningful in an assessment of investment and productivity is provided by considering changes in the gender patterns of human capital accumulation. In almost every OECD country women are overtaking men in educational achievement, at every level and in almost every subject. It is a hugely striking trend. SC has a double significance here. First, in contributing in part to an explanation: the norms which girls exhibit in their peer groups tend to favour school work and value achievement, so that the female groups help each other to succeed, raising young female human capital levels much faster than male. However this does not always translate into returns, at least not in salary terms. Why not? In part because male social networks continue to operate, reducing meritocratic allocation of higher-paying jobs. Females lack the linking social capital needed to take them upwards in the hierarchy, and the result is a sub-optimal allocation of qualified personnel.

19. The explanatory power of SC is evident, though in the former case at least it could more simply be called peer group effects. However the measurement issues are formidable, at least when it comes to any form of national indices.

20. The same issues arise, in different degrees, with other sub-optimal forms of HC allocation. Another example is where skilled or highly skilled people migrate but cannot get their skills recognised. This may happen formally or informally. Sometimes it may be for good reason, where the skills do not have the same application in a different cultural context. But sometimes it will be because the individuals lack the necessary social capital to enable them to know about and exploit job opportunities. Understanding productivity is likely to be enhanced by analyses which include SC.

VI. CONCLUSION

21. System complexity is a challenge which can be accepted, or ducked on the grounds that it is not susceptible to some of the most powerful current tools of analysis. Social capital can at the very least help us to focus on the interaction between different forms of capital, in order to build a more realistic and robust framework for a complex world. This need not stop the search for better individual measures or indices for social progress. It may mean, though, that the most potent contribution of SC is to the quality of the dialogue on what is meant by social progress, rather than as a single coherent conceptual tool.

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