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ANNOTATED OUTLINE – SOCIAL CAPITAL

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DEFINITION OF SOCIAL CAPITAL

1. The capital approach is an economic theory used to help measure and understand important features of the human environment. According to the Australian Bureau of Statistics (ABS), “Capital in economics is something produced in one time period to be used in the production of other goods and income during future time periods” (ABS, 2004, p.109). The four primary forms of capital currently are natural, economic, human and social. Of these, the most controversial is social capital.
2. The Organisation for Economic Co-operation Development (OECD) defined social capital as the “... resources gained through social ties, memberships of networks and sharing of norms” (Cotes and Healy, 2001, p. 23). This definition has since been adopted by several national statistical organisations, including the ABS and Statistics Canada. It implies that social capital exists to provide access to the resources of other capital forms.
3. In 2007, Czesany highlighted the importance of social connections when he defined social capital as the “Networks together with shared norms, values and understandings that facilitate co-operation within or among groups.” This conceptualisation reflects recent acknowledgement that social capital is itself a unique and valuable source of well-being.

SOCIAL CAPITAL AND SUSTAINABLE DEVELOPMENT

4. The Bruntland Report (1987) defined sustainable development broadly as “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” A plethora of research has linked social capital to indicators of well-being. In terms of satisfying basic needs, high social capital has been associated with lower crime rates, reduced early mortality, and greater perceived health (Lisakka, 2006). It has also been correlated with the satisfaction of more complex needs such as higher educational

¹ The annotated outline was compiled using a literature review by Daniel Jephson (Statistics New Zealand), and research summary notes by Joachim Thomas (Germany).

achievement, increased prospects for employment, and elevated economic productivity. Social capital manifests in formal bodies such as the core judicial, democratic and governance institutions, to disseminate and reinforce social values and expectations. It is also embodied in the less formal institutions of sports, religion and fashion. The partial or complete destruction of social networks and their associated norms significantly undermines the capacity of communities to meet short term basic and complex needs, while the associated loss of culture and identity disrupts the ability of future generations to satisfy their own needs. Social capital is, therefore, a central component of sustainable development.

DEFINITION OF SOCIAL CAPITAL ASSETS

5. According to the ABS (2004) capital assets, are "... things that yield streams of benefit **that make future productive processes more efficient, more effective, more innovative, or simply expanded.**" The second half of this definition (in bold) is particularly relevant to the assets of social capital, which, from an economic perspective, exist to facilitate the use of other capital forms. Although there is no explicit definition of social capital assets in the available literature, there is a general consensus towards recognising social networks and their associated norms as the core components.

6. Social networks occur in a variety of different modes and forums, from face-to-face meetings, to legislation, to technology-assisted transmission of information. In an economic sense, networks based on norms of trust and reciprocity reduce the security cost of transactions and enhance the efficiency of resource use, meaning that fewer resources of other capital forms are needed to generate income (Hatfield-Dodds and Pearson, 2005). From a social perspective, networks are an important component of social cohesion; they help to disseminate cultural norms and create identity through belonging.

7. It is important to separate the assets of social capital from their sources and outcomes in order to build conceptual clarity. Sources foster, deplete, grow and consume capital whereas outcomes are the effects created by the use of capital assets (Cotes and Healy, 2001). Social capital sources consist of individuals, groups and institutions, while outcomes include health, security, and economic prosperity.

8. Network levels: social networks connect individuals, groups and institutions across a number of different levels (Grootaert & van Bastelaer, 2002).

- **Micro-level** networks connect individuals to other individuals, to groups or to institutions.
- **Meso-level** networks connect groups to individuals, other groups or institutions.
- **Macro-level** networks connect institutions to other institutions and to groups and individuals.

9. Network categories: social networks also function across two social planes: horizontal (between people at the same hierarchical level), and vertical (between people at different hierarchical levels). Woolcock and Narayan's (2000) three network categories are based on the work of earlier researchers (for example, Coleman, 1988; Putnam, 1995). For each category, networks range from strongly to poorly connected.

- **Bonding** networks connect similar and equal individuals, groups or institutions (horizontal).
- **Bridging** networks connect dissimilar people at the same level (horizontal).
- **Linking** networks connect individuals, groups and institutions to authority (vertical).

10. Network characteristics: networks vary according to their *structure* and their *qualities*.

Network structure (ABS, 2004)

The structure of social networks refers to their more ‘physical’, or easily quantified, characteristics (Cave, 2007). These include:

- the *size* of the networks, or the number of individuals who are involved in the connection;
- the *density*, or the extent, of the connections;
- the *diversity*, or heterogeneity, of network members;
- the *frequency*, or number and duration, of the contacts between the parties in the network;
- the *mode*, or method, which enables the parties in the network interact.

Network qualities (ABS, 2004)

In addition to their structural aspects, networks also vary along a more ‘cognitive’, or qualitative, dimension. Network qualities reflect the norms and values of the culture that they are embedded in, and which they ultimately serve to strengthen.

- *Trust* is identified simultaneously as a source, an asset and an outcome of social capital. Lisakka (2006) describes trust as confidence in the reliability of a person, group or system.
- *Cooperation* involves each party in the network acting together for mutual benefit.
- *Efficacy* refers to the capacity of the network to produce a desired outcome.
- *Inclusiveness* involves all network parties accepting each other.
- *Intensity* refers to the strength and nature of the network.
- *Sense of common purpose* describes working together towards a common and accepted goal.
- *Reciprocity* is defined by Jary and Jary (2000) as the mutual expectation of giving and receiving.

Modern sociological theory

This section is to be added by Joachim Thomas

Social capital within the overall capital approach

- Capital theory is a useful approach to sustainable development because it is designed to measure elements of the human environment. Capital assets can be decomposed into their stocks and flows. Stocks indicate the quantity of a resource at a particular point in time, whereas flows gauge the pattern of stock production and use.
- Social capital only partially ‘fits’ the capital approach. On one hand, social networks and their associated norms are the stocks of social capital which can be measured and monitored over time. On the other hand, flows imply that the stocks of social capital are produced and used; yet social networks are intangible and relationship-based, precisely how they ‘flow’ through the human environment is not clearly understood.
- As a unique element of the human environment, social capital is conceptually distinct from the other capital forms. Economic capital refers to man-made physical and financial resources, natural capital refers to renewable and non-renewable natural resources and ecosystems, human capital refers to skills, personal abilities and knowledge, while social capital refers to the networks between people and their associated norms. Social capital is least similar to economic and natural capitals, which are more tangible and tend to decline through use. It has the most in common with human capital as the assets of both are generally immaterial and accumulate through use, but where human capital is primarily an individual good, social capital is more often a collective good.

Social capital substitution

- According to Smith (2007), capital substitution is the process of partially or completely replacing one capital asset with another without causing a related drop in well-being. This is important for sustainable development as it indicates which assets are critical to human well-being. While there are some controversial examples of substituting human for social capital, such as controlling crime by increasing police numbers rather than neighbourhood watch groups, most capital assets are unable to satisfy the components of well-being met by social networks and their associated norms, thus emphasizing the importance of social capital to sustainable development.
- Although the benefits associated with social capital are generally unique, asset substitutions do occur within social capital. Changing from being a member of a sports team to being a member of an on-line chat room, for example, involves a switch from one network mode to another. Whether such substitutions have an impact on overall well-being has yet to be established.

Measurement of social capital

- Using capital theory to understand and measure aspects of the social environment is a relatively recent development. As such, a consistent conceptual framework has yet to be constructed. An agreed upon conceptual framework will enhance the empirical precision of measurement by first, clarifying the relationship between sources, assets and outcomes (thereby eliminating the use of proxy indicators); and second, increase data consistency by guiding the selection of a common unit/s of measurement.
 - The absence of a consistent conceptual framework has fostered the selection of proxy measures (such as health and crime rates) as social capital indicators. To expand the pool of social capital knowledge, the sources, assets and outcomes of social capital must be conceptually separated. Measurement should first aim to establish the stock levels of assets and later their relationship to sources and outcomes.
 - In the interest of producing internationally consistent social capital data, a common unit/s of measurement is required. However, attempts to compare the presence of social capital across different countries should recognise the limitations of such an exercise brought about by the centrality of cultural norms and values to the concept.

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