Institut d'Etudes Européennes
et Internationales du Luxembourg

Luxembourg Institute for European
and International Studies

EXECUTIVE SUMMARY

Workshop on

Social and Anti-social Capital

11 May 2001
Harvard Faculty Club

Abstract

The Luxembourg Institute for European and International Studies (LIEIS) hosted at the Harvard Faculty Club on 11 May 2001 a one-day workshop organized to explore the notion of social capital. The workshop, based on the essay "Social and Anti-social Capital" by Paul Streeten, formerly senior official with the United Nations Development Program, and emeritus Professor (Boston University), ran in four sessions and was attended by some 25 participants, mainly from the Boston area, who sought to define "social capital", examine the problems of measurement, relate the notion to the "New Economy", and explore the relations between social capital, country size and economic growth, and who discussed the optimum balance between state, market and civil society.

The participants sought to conceptualize social capital in terms of economics, politics and anthropology. There is no clear theory or simple definition of social capital but policy-makers appreciate the interdisciplinary nature of the notion and welcome it as helpful. Emerging theories of the "New Economy" and their suggestion of a greater diffusion of economic and political power give it a fresh relevance.

A discussion explored ways in which country size, economic growth and social capital may be connected. It was suggested that when state, market and civil society are in optimum balance, the system includes market mechanisms which promote the efficient exploitation of resources and social structures that promote and sustain social well-being. Such a balance tends to have a positive effect on productivity.

All participants agreed that values, ethics and legal systems have an important role to play in the formation, consolidation and growth of social capital. Important factors include the creation and maintenance of trust and the development of a culture of cooperation in the economic as well as the political domain.

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I. What is social capital?

Abstract

The opening session featured an introductory exploration of social capital by Paul Streeten and a discussion. Two broad approaches were outlined: the first, involved mainly with the economic sources of social capital, attempts to explain the formation and maintenance of social capital in terms of economic theory; the second, couched in broader political and philosophical terms, focuses on the factors that are either favourable or hostile to social capital.

1. Introductory remarks by Professor Paul Streeten

The meaning of "social capital" has changed. Originally the term referred to investment in hospitals and schools, now it is applied to trust, norms and networks (TNN). This blurredness has contributed to criticism and rejection of the social-capital concept by mainstream economists, radical economists and Marxist thinkers. Yet the notion of social capital presents characteristics that make it interesting and relevant for various disciplines — for example, it is appealing to common sense, it seems made for overcoming the division between laissez-faire liberalism and leftist interventionism, and it is inherently interdisciplinary.

In attempting a definition of the forms of social capital, one distinguishes bonding and bridging capital, horizontal and vertical capital, and the attendant structures. Social capital is involved in the production of non-durable consumption goods, non-durable production goods, durable capital goods, durable investment goods for non-market activities, and durable consumption goods, which may be complementary or competing endeavours. Examples of positive social capital include social relations and the generation and dissemination of information. Negative social capital includes all forms of social organization which are detrimental to economic productivity or which undermine the general well-being, including the quest for entitlements, lobbying or, more drastically, violent extortion.

Two points should be noted when seeking to conceptualize social capital: one, the exercise of an ability is not identical with the use of resources; and two, for a society to achieve sustainable development and high levels of productivity, that is, to function well, the efficient utilization of resources by means of market mechanisms must be complemented by other mechanisms.

2. Discussion

The discussion consisted of short interventions focused on the economic aspects of social capital, general political considerations, and philosophical considerations including anthropology and history.

(a) economic aspects

Social capital and community. Peter Doeringer, Boston University, remarked that the best place to study social capital as trust, norms and networks (TNN) is in small, homogeneous communities where steady relationships continue over time. He noted that such conditions, manifest as social capital, can reinforce the monopoly power of the owners of physical capital. Social capital does not automatically benefit those who create it; rather, the control over returns and the distribution of returns determines who the surplus generated by social capital shall benefit. Hence, according to Doeringer, the Marxist questions of how social capital is generated, what it yields and how it is distributed retain their importance.

Interaction between efficient capital use, trust and the ability to adapt. Richard Cooper, Harvard University, argued that the distinguishing feature of the US economy is its comparatively low capital-labour ratio – that is, its efficient use of capital. This explains the superior ability of the United States to adapt to economic change; crucial is trust and its ‘enforcement’ under contract law, etc.

Time sense, the acquisitive instinct, the work ethic. Andrew Kamarck, former Director of the Economic Development Institute, World Bank, suggested three minimum conditions for successful economic and social capital formation: time sense, or time discipline, the beginnings of an acquisitive instinct, and a touch of the work ethic. At a higher level, legal structures, networks and organization become important.

Money value; the household sector; forward thinking. Neva Goodwin, Tufts University, stressed the importance of treating social capital as an output to which a money value can be attached and of considering the household sector as one of the sources of the social capital. An important factor in the formation and depreciation of social capital is the value that economic actors attach to the future.

Institutions and structures; depreciation. Charles Kindleberger, emeritus Professor, MIT, suggested that social-capital depreciation depends on the nature of the institutions and structures involved. Social arrangements such as the family, extended communities, guilds or rules for shipping provide historical examples of the generation and preservation of social capital. When attempting to discover the exact source of a generation or depreciation of social capital, it is important to distinguish between social capital and social capability.

Organization; social discipline critical to the formation of social capital. Lester Thurow, MIT, called the ability to organize, defined as the willingness to accept leaders and to follow them, a primary element of social capital. The difference between cooperative and competitive organization was emphasized. The economic history of the USA was adduced as evidence of the decline of most forms of cooperative organization.

(b) wider political, historical and philosophical aspects

Trust precedes the legal system. Carl Kaysen, emeritus Professor, MIT, and Jonathan Kirshner, Cornell, argued that the legal system did not precede trust which is generated by cultural conditions. The nature and operations of the legal system should be distinguished from interpersonal trust. For Carl Kaysen, trust is based on feelings akin to those expressed in the Golden Rule and in ethical systems such as defined by Kant, which call for men to be treated as ends, not means.

Power relations. Martha Chen, Harvard University, offered anthropological reflections, suggesting that the social ties sought by humans are both horizontal and vertical in nature, with reciprocity and trust characterizing the former and hierarchy and authority the latter. Many forms of social capital are sporadically anti-social and therefore involve power relations always. One way of generating social capital that benefits all members of the society is by extending bargaining power to enable individuals or groups to influence power relations.

Indefinable nature of the concept. Gerhard Ambrosi, Trier, argued that Hegelian thought usefully distinguishes three aspects of human behaviour: need and greed, love and affection, and law and justice. Social capital merges the societal aspects of law and justice with those of love and affection into an intangible concept. Because social capital is a multi-faceted notion, it defies complete description.

Social identity and social bonds. Bruce Mazlish, MIT, noted that in the history of thought, man has usually been defined as a “social animal”. He cited Adam Smith’s description of the “impartial spectator” who asks himself how others assess him and his actions. When modernity severed the bonds between man and God, man and nature and among men, this understanding of sociality waned. Charles Carlow, quoted by Marx, spoke of the last connection between men being the cash nexus. Against this background, the assumptions of rational choice theory seem unrealistic. If the notion of social capital encompasses the social bonds at work within networks and organizations, then the term "identity" may be helpful for understanding how people have multiple identities and what the requirements are for moving towards a common identity.

II. Social Capital, its measurement and the 'New Economy'

Abstract

The participants in the second session continued the debate on how to conceptualize social capital, with the focus of the discussion shifting towards the importance of the "New Economy" and towards ways to measure social capital. The main points made were that the 'New Economy' adds to the complexity of the notion of social capital and that social capital will probably continue to elude measurement.

1. Discussion on the role of the 'New Economy'

For Peter Doeringer, the 'New Economy' is characterized by the advanced technology incorporated into the production process and by the capital and labour, ideally organized to allow a maximum of flexibility, embodied in technology. Social capital is an important notion when considering the "New Economy" because it encompasses four aspects of the production process and of labour relations: first, the increased use of teams and teamwork; second, an emphasis on cooperation, horizontal and vertical; third, an emphasis on group problem solving; fourth, the crucial role of commitment. This last aspect ties in with the question of redistributing the returns from social capital. It would appear that the "New Economy" is more capital-intensive than the previous economic system, that social capital does pay off in value-added terms and that the value added benefits primarily the owners of physical capital. Social policy and social law gain in importance insofar as they determine the power of those who generate social capital under the "New Economy", who thus far have not seen their share of the increased benefits.

Gerhard Ambrosi suggested that the "New Economy" brought to the fore the role of social capital in sustaining consumption, the so-called "feel-good" factor. Examples of social capital acting as an economic deadweight include conspicuous consumption and expenditure in general on entertainment concerned with the creation of lesser myths and symbols.

Rajpal Malhotra, Chandigarh, stressed the importance of conceptualizing social capital in the framework of the broader political and cultural factors at work in a society at a specific point in time. This framework is a function of country size, social structures and other factors and provides the conditions for the formation and operation of social capital. The "New Economy" is important in that it accelerates the rate of change of certain of the fundamental determinants of social capital.

2. Discussion on how to measure social capital

Participants identified some of the problems involved in the attempt to measure social capital.

The problem of measurement, which encourages simplification, may be a hindrance to theorization. (B. Mazlish) Social capital is *inter alia* a function of democracy, freedom and well-being, all highly complex factors which defy accurate measurement and extrapolation, and will continue to resist conceptualization. (N. Goodwin) Non-market household inputs to the economy, which are also inputs to social capital, are difficult to measure. (J. Schor) A main difficulty of measurement appears to be the necessary distinction between production values and civic or human values.

For Steve Marglin, Harvard University, measurement of social capital presupposes a good understanding of what social capital is and how it is generated. Since the discussions revealed that no such clear understanding exists, the striving for an aggregate measure of social capital is premature. However, it is not unrealistic to strive to improve our understanding of social capital. Professor Kindleberger agreed, adding that measurement is not the only criterion by which understanding of economic phenomena is to be judged.

Professor Franco Modigliani brought up the issue of negative social capital and pointed to tax-evasion in Italy as a good example of pervasive negative social capital. The difficulty of understanding social capital in countries in which the payment of taxes is irregular is increased by practices such cooperative banking. Measurement of social capital should take into account this and other slow-to-change factors.

For Robert Engler, emeritus Professor, CUNY, measurement of social capital is problematic as it relies on the existence of a system or systems in which social capital is subject to certain laws.

Mohan Rao, University of Massachusetts, added that attempts to conceptualize social capital and *a fortiori* quantify it presuppose a clear definition of the meaning of the term and a grasp of how social capital is constructed and of the factors which impede its construction. Keeping in mind the question of the relation of ethics to social capital helps the conceptualist think in terms of both hard facts and values but the normative dimensions of this approach must be clearly stated or the analyst runs the risk of confounding desire and reality.

III. Country size, social capital and economic growth

Abstract

The third session focused on the connection between the independent variable “country size” and the two dependent variables “social capital” and “economic growth”. It emerged from the discussion that the working assumption according to which small countries display greater economic growth as a result of their having a larger stock of social capital is open to question.

1. Discussion of the working hypothesis

Empirical and theoretical evidence in support of the working hypothesis exists. Gerhard Ambrosi argued that because the overhead costs of smaller administrative units are lower, smaller countries – as opposed to the hypothetical oversized nation – allocate fewer resources to the creation of potentially bureaucratic structures. Mario Hirsch suggested that the social cohesion which tends to be more developed in smaller countries exercises a positive effect on social capital and economic growth.

Others questioned the working hypothesis. Contradictory tendencies appear to be at work in the connection between country size, a country’s stock of social capital and its economic performance. Social interactions in a small country are more intense, leading to situations which can be either favourable or detrimental to social capital. (A. Kamarck, M. Hirsch).

Mohan Rao and Rajpal Malhotra stressed the problem of deciding which measure to apply when pronouncing on country size: territory, population, population density or degree of development. Mohan Rao pointed out that sheer numbers are not necessarily an obstacle to shared beliefs and shared institutions, two of the factors underlying social capital, and gave as examples the caste system in India and the class system in Western capitalist countries.

A third objection came from Carl Kaysen who held the nature of the labour market in a given country to be a more important determinant of economic growth than that country's absolute size. It is the fluidity and mobility of labour, and not the size of the pool from which labor can be hired, which produces efficiencies.

Robert Engler further challenged the working hypothesis. Flourishing communities, and not the absolute size of a country, matter. He cited as evidence the phenomenon of neighbourhood in the USA and argued that the political theory of diffused power applies also in the realm of economics. He cited Schumacher's theory of appropriate size and the merits of decentralization, for example, in the field of health care.

2. Discussion of alternative working hypotheses

Jonathan Kirshner formulated an alternative working assumption, arguing that smaller states exhibit stronger economic performance than larger states because small states when challenged by new developments pursue policies of adaptation and in their dealings with larger states, generally seek conflict resolution rather than conflict. This begs the question of the optimum economic and social unit for the generation of social capital – a region, a country, a nation? Neva Goodwin stressed the importance of intermediary groups in the operations of social capital. Steve Marglin reported findings which suggest the national-defense unit as the proper indicator of the desirable size of the optimum economic unit. The question of open borders, which has a bearing on issues involved in the integration of economic and monetary areas, was raised.

IV. Finding the appropriate balance between the state, civil society and the market

Abstract

Participants in the fourth session discussed the dynamic at work in the relations of the basic political, economic and social institutions. It was suggested that the concept of civil society is too blurred to be of great empirical help but that new forms of political, economic and social organization are needed to help generate and consolidate social **capital.**

1. Discussion

Paul Streeten remarked at the outset that each of the three categories – state, civil society, market – poses a conceptual problem, even the market, albeit to a lesser degree. However, each of the three categories also possesses an empirical reality and therefore should be taken into account. The balance between state, market and civil society varies in each country and over time. The question of optimum balance is important as is the question of how optimum balance can be realized.

Mario Hirsch questioned the concept of civil society on the grounds that it is a contemporary invention with no reality in history, Hegel's *Bürgerliche Gesellschaft* referring to something else, and a highly heterogeneous compound without unity of purpose. A more important issue is the future of the middle classes who have been net losers as economic and political developments forged ahead in Europe and who now are called upon to re-shape society.

Gerhard Ambrosi, speaking from a Hegelian perspective, said that it is not possible to consider civil society in opposition to the market because the market is the *Bürgerliche Gesellschaft* realized as organization. Nor does the state stand opposed to the market or to the *Bürgerliche Gesellschaft*; rather, it functions as the necessary mediator between the abstract and mechanical system of the law on the one hand and compassion and need and greed on the other. However, inasmuch as no state is a fully realized manifestation of the Hegelian absolute spirit, the Hegelian concept is open to discussion.

Neva Goodwin criticized the tripartite division of state, civil society and market, suggesting instead that there are three types of economies: the market economy, the public-purpose economy and the household / neighborhood economy. This begs two questions: one, what purpose distinguishes these economies, and two, what currency do they use? In response to the first question, it may be answered that markets pursue profit maximization whereas the public-purpose economy and the household economy pursue forms of justice and seek the satisfaction of basic needs. As to the currency in use, the market employs money exclusively whereas the public-purpose economy and the household economy rely on both money and various forms of voluntary action measurable in time units and in Hegelian “love and affection”.

Carl Kaysen drew attention to the mobilization activities of volunteer organizations, calling their work a social process that creates social capital which can be used to control, reinforce, (re)direct or oppose government action. Such organizations include institutions like the boards of museums and universities.

Andrew Kamarck remarked that such organizations pursue heterogeneous purposes: special interests, mediation between citizens and the state, assumption of responsibilities previously discharged by the state. Rather than reasoning in terms of ideological boundaries, it is important to assess the nature and scope of such organizations and to think of ways to coordinate their action.

Mohan Rao described the current world situation as the product of two factors: on the one hand, countries without a proper state or functioning market system or established civil society, or a balanced mixture thereof; and on the other, a hybrid global society characterized by market over-development and state and civil-society underdevelopment. The global state exists in *ad hoc* arrangements only, that is, by default. The question of proper balance between state, civil society and market ought to be posed for human society as a whole. Minimum mechanisms for enabling every inhabitant of the globe to have representation are a pressing common need, as are minimum levels of social capability including health, social security and education.

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Programm

9.00 – 10.45	**Session I: What is social capital? How can it be measured?**
10.45 – 11.00	**Coffee Break**
11.00 – 12.30	**Session II: Social Capital and the New Economy**
12.30 – 14.00	**Lunch Break**
14.00 – 15.45	**Session III: Size of a country, social capital and economic growth**
15.45 – 16.00	**Coffee Break**
16.00 – 17.30	**Session IV: What is the right balance between the state, civil society and the market?**
17.30 – 18.00	**Session V: Future promising areas of research**
20.00	**Dinner at the Upstairs at the Pudding**

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List of invited participants

Ambrosi, Michael G., Professor, European Economic Policy,University of Trier
Bergson, Abram, Professor emeritus, Center for Russian Studies, Harvard University
Chen, Martha, Professor, J.F. Kennedy School of Government, Harvard University
Clesse, Armand, Director, Luxembourg Institute for European and International Studies
Cooper, Richard, Professor, Center of International Affairs, Harvard University
Doeringer, Peter, Professor, Dept. of Economics, Boston University
Engler, Robert, Professor emeritus, City University of New York
Epps, Archie, Senior Dean of Students, Harvard College
Goodwin, Neva R, Co-Director, Global Development and Environment Institute, Tufts University, Medford
Hirsch, Mario, Editor in Chief, D'Letzeburger Land, Luxembourg
Kamarck, Andrew, retired Director, Economic Development Institute, World Bank
Kaysen, Carl, Professor emeritus, MIT, Cambridge
Kindleberger, Charles, Professor emeritus, MIT, Cambridge
Kirshner, Jonathan, Professor, Dept. of Government, Cornell University, Ithaca, NY
Malhotra, Shri Rashpal, Director, Centre for Research in Rural and Industrial Development, Chandigarh
Marglin, Stephen A., Professor, Dept. of Economics, Harvard University
Mazlish, Bruce, Professor, Dept. of History, MIT, Cambridge
Modigliani, Franco, Professor emeritus, Sloan School of Management, MIT, Cambridge
Rao, Mohan, Professor, Dept. of Economics, University of Massachusetts Amhurst
Schor, Juliet B., Professor, Women's Studies, Harvard University
Streeten, Paul, Professor emeritus, Boston University; UNPD, Spencertown
Thurow, Lester C., Professor, Sloan School of Management, MIT, Cambridge
Warsh, David, Columnist, Boston Globe, Boston