

Commentary

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In this session there are five papers which cover a wide range of issues and evidence which bear on the general theme of social capital. As we have learned in the conference' the concept of social capital is an extraordinarily rich one, but also one that appears to be subject to multiple interpretations. Whether the concept is useful for classification and measurement or not ultimately depends upon how it is used. The papers in this session demonstrate both the weaknesses and strengths of the concept of social capital. Many people associate the term with the original Putnam notions of trust and association. This leads to a certain restriction in the way the concept is both used and measured. For most of the papers in this session, however, a somewhat broader interpretation is used. For economists there is a distinct blurring between the concept of social capital and other concepts such as human capital, neighbourhood effects, or simply education. My general impression is that empirical work in the area will probably be advanced by the use of more restrictive definitions of social capital. Nevertheless, the papers of this session all bear in one way or another upon social capital and its role in economic growth and development.

The McMahon paper is most closely related to the traditional concept of human capital. The paper presents an estimated dynamic model of the interactions between education, economic growth, and a number of social outcome variables such as inequality, environmental quality, and political stability. The model is estimated using a panel of OECD countries. The economic module is distinguished by the presence of an educational externality in an otherwise traditional Lucas style growth model. The non-economic outcomes variables come from a variety of reduced form equations which have substantial empirical plausibility. What I found most interesting about the paper was the incredible lags, often on the order of 25 years, between a

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change in education policy and its impact on economic growth. Moreover, similar lags are observed in the impacts on social outcomes such as poverty and inequality. This is an incredibly ambitious modeling exercise. The results are of course sensitive to the estimated dynamics given the lags involved, and, given the rather short data span relative to these lags, the estimates are likely to be fragile. However, the message, if not the exact numbers, of this paper should be clear. Economic and social policy interact in highly significant ways. From the policy point of view, however, the incredibly long lags are a problem for both politicians and for social scientists. For the politicians with time horizons defined in terms of a typical electoral cycle, any positive policy change will not bear fruit (positive or negative) within their political life. For social scientists who typically use cross-sectional data or highly aggregate time series data covering a couple of decades, we have a daunting task in attempting to unravel the causal pathways running from economic to social policy and vice-versa.

Both the McMahon and Coulombe papers focus in part on economic growth and human capital. The Coulombe paper is an investigation using Canadian provincial data of the convergence effect on income and human capital as it interacts with both urbanization and some province specific effects. Interestingly, he finds that there is much stronger convergence over the post war period in human capital than in income. Urbanization has a strong positive effect on both the speed of convergence and steady-state values of income and human capital. For two provinces, Quebec and Alberta, he finds there are some specific factors which led to some significant differences from the other provinces. Regional inequality is an old and well-researched topic in Canada. The use of the growth convergence methodology is a welcome addition to the existing approaches. A regional economist would ask the obvious following questions. First, the fact that strong convergence is found in the human capital variable must reflect the role of the federal government in promoting a common vision, and in providing support, for national education standards. Secondly, the relatively weaker speed of convergence in incomes may reflect the centre-periphery nature of economic development in Canada, with

small resource dependent provinces having lower growth rates in income than other larger provinces which have a much greater share of activity in non-resource manufacturing and services. There are some theories which suggest that divergence in regional incomes rather than convergence is the likely outcome of market forces left on their own. The β -convergence-growth framework does not distinguish between a lack of growth in initially poor regions, relative to other unspecified structural reasons as to why certain peripheral regions tend to diverge in income levels from the centre region. Moreover, by forcing a common convergence structure across all provinces (regions), the framework tends to miss what many regard as an essential and persistent asymmetry in many countries' regional growth pattern.

Two of the papers emphasize the role of community and neighbourhood effects. There is now a rich literature developing on the role of neighbourhood effects on a variety of social outcomes, and while not directly related to social capital, is clearly complementary to the social capital approach. The paper by Barbara Wolfe and Robert Haveman is another application of their justifiably well-known approach to the identification of the non-market effects of education. As in the case of the papers already discussed, there is an emphasis on the interaction between human capital (education) and other social outcomes, in particular on the schooling of children and fertility choices. They summarize a large number of studies showing that education has a positive effect on these social outcome variables. Second, they find that neighbourhood effects sometimes appear to have important impacts on youth human capital. They note, however, that many of these effects are sometimes insignificant in the studies surveyed. The paper then goes on to use their established methodology to estimate the total benefits to individuals from additional education, taking into account that education has an impact on these other outcomes. It is important to emphasize that the methodology used assumes the non-market benefits to education are privately appropriable. On efficiency grounds, therefore, the fact that the total benefits to education are much greater than the increased earnings education brings does not, in and of itself, provide a market failure argument for support of public education. It does,

however, caution us that looked at from the point of a merit good, or as an in-kind program for the promotion of equality, public education may have a much greater impact than the traditional wage-schooling regressions would suggest.

The paper by Willms on the measurement and impact of socioeconomic status on literacy outcomes is well beyond my area of expertise. His results seem extremely interesting and broadly consistent with my own prejudices. As in the case of Haveman and Wolfe, he suggests that community effects (or more specifically school effects) can be quite important. On balance, both these papers suggest that the 'neighbourhood' view of social capital is a useful complementary approach to that of Putnam.

The paper by Stephen Knack is closest to the traditional 'social capital' literature, and one that economists no doubt will feel most comfortable with in drawing conclusions about the empirical usefulness of the social capital concept. In his introduction Knack emphasizes the 'radius of trust' and cooperation definition of social capital. A lot of economic activity is coordinated through both these mechanisms and there are thus good reasons to expect economic growth to be related to good measures of these. How good? Knack notes this has been a standard criticism of the cross-sectional growth literature on social capital. Knack argues that the World Values Survey variable is a useful proxy for 'true' measures of trust and cooperation across societies. Using a Barro type growth regression he finds that in a sample of 29 market economies trust positively affects growth, and suggests that the link is in part through its impact on investment. The paper then goes on to look at a measure of the density of association reported in the World Values Survey and argues this is related to Putnam's original notion of the density of horizontal networks. He finds that neither growth nor investment are related to this variable. Furthermore, this holds up when one tries to eliminate group memberships based on rent-seeking motives – 'Olson groups'. He also finds paradoxically that Putnam groups have a significant negative effect on growth. This is clearly contradictory to the basic theoretical models linking social capital to growth and merits further investigation.

There was a lot to think about in these papers. They have not convinced me that social capital is a concept that will become standard in the growth economist's toolkit. I do think, however, that as a complement to human capital, and neighbourhood effects, it certainly provides a challenge to economists to broaden their horizons both theoretically and empirically.

References:

Coulombe, Serge (2001) "The Contribution of Human Capital and Urbanization to Canadian Regional Growth" in this volume.

Haveman, Robert, and Barbara Wolfe (2001) "Accounting for the Social and Non-Market Benefits of Education" in this volume.

Knack, Stephen (2001) "Trust, Associational Life and Economic Performance" in this volume.

McMahon, Walter (2001) "The Impact of Human Capital on Non-Market Outcomes and Feedbacks on Economic Development" in this volume.

Willms, Douglas (2001) "Three Hypotheses about Community Effects Relevant to the Contribution of Human and Social Capital to Sustaining Economic Growth and Well-Being" in this volume.