

SOCIAL COHESION, PUBLIC POLICY, AND ECONOMIC GROWTH: IMPLICATIONS FOR OECD COUNTRIES

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Introduction

One of the paradoxes of our age is that the more things come together, the more they fall apart. As the Internet, global telecommunications and air travel convey ideas and resources at ever-faster speeds to ever-greater numbers of people at ever-lower cost, so there appears to be almost a Newtonian “equal-and-opposite reaction” manifesting itself in a retreat into ethnic or religious identities and geo-political separatism. Part of this process has been the somewhat more benign, but no less challenging, process of localization — i.e. a reaction among citizens and workers alike against real or perceived threats of globalization (World Development Report 1999). As Benjamin Barber (1995) notes, it is perhaps not a co-incidence that today’s world news is dominated by mergers of major multi-national companies, secessionist battles, and the proliferation of new states based on ethnic identities in the aftermath of social or ethnic conflict. AOL-Time Warner and East Timor may have more in common than we might imagine.

This paradox of our age mirrors those of earlier times, such as the enlightenment, the industrial revolution, and most recently, the Cold War. The common thread running through these historical moments of widespread social change is a deep concern about how and whether society as we have known it will remain possible. It places an extraordinary burden on leaders — political, academic, and business — to confront these complex and destabilizing issues. It

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also compels us to listen to our communities and societies, to heed their fears, concerns, and aspirations.

Political philosophers and sociologists refer to the underlying issue here as the problem of order (Wrong 1994). How do individuals create and sustain social order? How should we respond when that order appears to be breaking down? In contemporary discussions, especially in the OECD countries, a host of social maladies such as rising teenage parenthood, economic inequality, unemployment, the displacement of people², and falling civic participation, have been identified as symptomatic of the breakdown of social order. Are these social problems related to economic performance? If so, how? How can we mobilize our human and social resources in the pursuit of a more inclusive economy and society? More generally, how does the problem of order relate to the problem of economic growth?

The short answer to these questions is that we don't really know for sure. The long answer is that a fascinating body of literature from across the social sciences is gradually coalescing into a more or less coherent framework that will greatly enhance our capacity to provide a more rigorous answer. The body of knowledge on which this framework is based has been pioneered by academic scholars such as Dani Rodrik, Peter Evans, Robert Putnam, and Amartya Sen, and my colleagues in the Development Research Group at the World Bank, especially Paul Collier, David Dollar, and William Easterly. An overview of their work is represented in the forthcoming *World Development Report 2000*, on poverty, and will feature more prominently in *WDR 2001*, on institutions. Importantly, we are also learning from the voices of poor and marginalized people themselves. A key feature of this year's WDR on

² Social exclusion, dislocation and the displacement of people and whole communities is not a sub-national, or a "third world" issue; indeed, Europe's share of the international refugee crisis is almost as dire as that of Asia and Africa. Where protracted social and political conflict in most of the developing world and in central Europe has resulted in an estimated 21.5 million people being rendered "*populations of concern*" for the United Nations High

poverty is that it incorporates the findings of a major study undertaken in 63 countries on how the poor understand the causes, experience, and consequences of poverty.³ We have learned that listening attentively to the poor, and forming genuine partnerships with them, can make a big difference in terms of how we respond, and how we evaluate our actions.

This is the first of three papers in which I will endeavor to apply this emerging framework to economic development issues around the globe. This paper concerns itself with the OECD countries, the second will address transitional countries, and the third the developing countries. I begin by providing a brief overview of the World Bank's objectives, and recent innovative strategies that have been developed to meet them. Thereafter I introduce the idea of social cohesion and the various ways in which it has been used (and abused) over the years. I also compare the similarities and differences between its conceptualization in the developed and developing world. I then argue for the importance of adding an institutional context to social cohesion, and incorporate the notion of "room-for-maneuver." I provide a summary of the broad evidence in support of the thesis that socially cohesive societies governed by responsive public institutions are more likely to pursue pro-poor economic growth strategies. In conclusion, I explore the implications of this evidence for development policy. An important and recurring theme of this paper is that social cohesion should not be seen as primarily a developing country concern; indeed, I dislike the very distinction between "developed" and "developing" countries. Social cohesion, like the problem of order it seeks to flesh out, is as important in Sweden as it is in Swaziland, in Canada as it is in Colombia, in the Netherlands as it is in Nigeria.

Commission for Refugees, Africa, Asia and Europe are about evenly matched with refugees, asylum seekers etc. (see United Nations High Commissioner for Refugees 1998).

³ *Can Anyone Hear Us? Crying Out for Change*, and *From Many Lands* (Three Volumes in the 'Voices of the Poor' Series). See Narayan (2000), Narayan et al. (2000), and Narayan and Petesch (2001).

1. The World Bank's Objectives and Strategies

The World Bank's primary goal is to uproot poverty and effect long-term, equitable and sustainable development in so-called underdeveloped and transition countries. The touchstone of our work is the Comprehensive Development Framework (CDF) and our Poverty Reduction Strategy Papers (PRSP). The essence of the CDF is the understanding that development entails more than just "getting the macro-economic fundamentals right." To be sure, low inflation, balanced budgets, macro-economic stability, etc. are important, but they are not ends in themselves; rather, they are a means to an end, and that end must be to reduce poverty. The CDF gives countries primary responsibility for devising, implementing, and monitoring development projects; it places individual countries in the driver's seat.

Another important feature of our approach to reducing poverty is a recognition that doing so requires far more than just transferring financial or physical resources. Equitable and sustainable development also requires the transfer of knowledge, ranging from ideas about how to design good schools to disseminating data on the effectiveness of particular social protection strategies. Building up the technical skills and administrative capacities of client countries is vital if they are to assume their place in the driver's seat with confidence. To this end we are endeavoring to re-invent ourselves as the Knowledge Bank, an institution as concerned with sharing ideas and building local capacity as it is lending money. A Knowledge Bank is central to building social cohesion in countries around the world, because it enables us to make our intellectual resources available to the most people at the least cost, to share best practices, and to foster greater transparency. The CDF and (especially) the Poverty Reduction Strategy Papers both give high priority to social aspects, but it is important to be clear about why and how these social aspects in general, and social cohesion in particular, might influence efforts to reduce poverty in *all* countries, not just low-income countries.

These changes in the World Bank's approach to poverty reduction are the result of a number of factors. On the one hand, historical events and technological change have created new opportunities for innovation. In a post-Cold War world struggling to transform former planned economies into open market economies, it is both necessary and possible to give greater attention to social and institutional issues. The Internet enables World Bank staff to provide rapid support to our clients, and to disseminate documents and data at the click of an icon, thereby enabling even critics of the Bank to have full access to our products. The draft issue of the World Development Report 2000/01, for example, was available online to enable all interested parties to contribute to the final product. On the other hand, we also now have greater intellectual freedom, more comprehensive data, and powerful new ideas emerging from both the scholarly community and from practitioners. These ideas — and the evidence on which they rest — enable all of us to move beyond the constraints of well-worn paradigms, retrieving what is useful from them but moving forward with a greater sense of openness to the insights of different disciplines, methodologies, and vocations.

For the purposes of this paper and this symposium, however, I want to focus on a conceptual framework of development in the OECD countries, one that is both informed by and that shapes the World Bank's approach to policy and projects. As the title of this paper suggests, I have adopted the term “social cohesion” and placed it at the center of this framework, as I believe it most neatly captures the two elements of a country essential for equitable economic growth, namely an inclusive civil society and responsive political institutions. I am aware that many different “social” labels — social capital, capability, exclusion, infrastructure — have recently been coined to capture these concerns, but my own preference is for the concept of social cohesion, since it captures most succinctly these twin features of inclusion and responsiveness at the societal level.

Does the term social cohesion help us in understanding development in a particular country? Does it help to order our thoughts? And if so, can that reflection be tested empirically? These are important questions for researchers. They also set the stage for politicians: is the term “social cohesion” useful for the politician in making decisions? A second set of questions immediately follows from positive answers on the first set. If social cohesion makes sense analytically (and maybe also empirically), then we would want to know how social cohesion itself develops, how it grows or declines, and how political decisions can influence social cohesion. It is not so much social cohesion in itself that has captured my interest, then, but rather its potential for helping us understand a range of development outcomes.

2. Understanding Social Cohesion

This OECD conference is titled, “The Contribution of Human and Social Capital to Sustained Economic Growth and Well-Being”. Most of the contributions to this conference use the term social capital to denote what in this paper I describe as social cohesion, a term I prefer for a number of reasons. I find the term ‘capital’ to be confusing because many of the characteristics of physical capital do not apply (e.g. divisibility, non-negativity, the possibility for establishment of ownership and for market transactions). As a former politician myself, I want to use terms that policymakers and citizens alike intuitively understand and are comfortable with. I also want to refer to broader features of society, whereas social capital is primarily concerned with networks and communities. It is true that the term human capital does not satisfy the characteristics of physical capital either, but at least one of the common elements about human and physical capital — as Glaeser et al. (2000) rightly point out — is that *individuals* decide on the investments. With social capital it takes always two to tango; indeed, given the number of people often involved in a network, social capital may be more of a square dance than

a tango! In the end, however, the use of a particular term over another matters far less than that the issues they all encapsulate are brought to the table and seriously debated.

My reflection takes as its point of departure missing clues in the mystery of development. Consider the case of Ireland, for example, which emerged from a relatively poor OECD country to recently overtake the UK in GDP per capita (see Figure 1). The explanations for this rise are quite solid: the Irish combined sound fiscal policy and a strong human development policy, with a commitment to the rule of law and peaceful labor relations in an open country environment (Barry 1999). But we would like to look behind these explanations, since they tell us nothing about *how* the Irish were able to organize these good policies. Conversely, consider Argentina, which fell from being one of the richest countries in GDP per capita in 1920 to developing country status now, doing so largely because of its poor choice of economic policies. In general, we know that good policies matter for development; what is needed is more and better insights into why good policies come about in one country but not in another.

[Figure 1 about here]

Social cohesion may provide one of those clues. The expectation that it might be *the* clue does injustice to the complexity of development. Moreover, social cohesion may be no more than an analytical concept: helping us to organize our thinking on the complex processes which lead to social or political choices which may serve better short or long-term development. But social scientists and politicians alike who are from a Popperian descent would like to see whether measures can be developed to test empirically the social cohesion hypothesis. Accordingly, we need to be as precise as we can in terms of providing a definition of social cohesion, and as rigorous as we can, in terms of assembling the available evidence.

Social cohesion has many formal definitions (see Appendix 1). Judith Maxwell (1996: 13), for example, argues that social cohesion refers to the processes of

building shared values and communities of interpretation, reducing disparities in wealth and income, and generally enabling people to have a sense that they are engaged in a common enterprise, facing shared challenges, and that they are members of the same community.⁴

This otherwise excellent definition, like much of the work and thinking on social cohesion, is essentially focused at the community level, but in my deliberations on these matters I have found it necessary to incorporate a macro-political component. This is so because the quality of government — at the local, state, and national level — has a major bearing on the capacity of societies to negotiate solutions to their problems, and to advance collective interests. Whether those problems or opportunities stem from domestic or international sources, the broader legal and institutional environments in which they occur shape and constraint the range of possible actions, and the extent to which any of them can be successfully implemented. My shorthand for these latter factors is “room-for-maneuver.” (A summary of my conceptual framework is outlined in Appendix 2.) It is my contention that a country’s social cohesion — i.e. the inclusiveness of its communities *and* its institutional room-for-maneuver — has a vitally important role in managing the effectiveness of that country’s policy response to the vagaries of the global economy. If social scientists can demonstrate this empirically, then politicians and policymakers should be able to see its significance for their country, and act accordingly.

To this end, I define social cohesion in the following way:

⁴ As cited in a comprehensive review of the literature by Jensen (1998).

Social cohesion is a state of affairs in which a group of people (delineated by a geographical region, like a country) demonstrates an aptitude for collaboration that produces a climate for change that, in the longer run, benefits all.

Presumably what has been given to the authors of the different contributions for this conference as a definition of social capital — i.e. the norms, networks and other related forms of social connection — will be an important basis for this aptitude. At the same time, it will matter how, with whom, and on what terms these norms, networks and other connections are made. Linking relations that connect people from different socio-economic groups are presumably the most important of these, compared to bonding (family, friends) or bridging (colleagues, horizontal ties) relations (Woolcock 2000; World Bank 2000).

In seeking to unpack this notion of social cohesion, let me stress from the outset that I am fully aware of the fact that some political partisans with a narrow — even sectarian — agenda have had an unfortunate history of invoking “social cohesion”-type arguments as the basis for their actions. The desire to cultivate a sense of national unity and “purity” brought us the holocaust and ethnic cleansing, so I am most surely not arguing that social cohesion equals cultural homogeneity or intolerance of diversity; quite the opposite. Nor am I invoking some naive suggestion that if we all held hands and sung “We are the World” enough times our differences and problems would disappear! Rather, I use the concept of social cohesion to make the point that — whether the entity concerned is a community, a corporation, or a country — the extent to which those affected will work together when crisis strikes or opportunity knocks is a key factor shaping performance. Graphic scenes on CNN during the 1997 financial crisis in South Korea provided a fascinating case of social cohesion in action, of people tearfully parting with family treasures in the belief that their humble contribution was making a difference.

Where this cohesion is lacking — as it was in Indonesia — the response to crisis is far more sluggish, heightening a number of other political tensions. Dani Rodrik (1997: 7) accurately notes that crises of this sort are “not a spectator sport — those on the sidelines also get splashed with mud from the field. Ultimately the deepening of social fissures can harm all.”

Social cohesion may differ in conception in various countries and regions, but it is equally important for every society. Conceptions of social cohesion differ among the OECD countries, and between OECD and less developed countries, in terms of the themes and approaches given priority. In OECD countries, discussions about social cohesion are driven by a concern to maintain an inclusive society able to withstand external shocks and the harsh effects of a global economy. In the developing world, social cohesion is discussed more in terms of reconstructing and developing a sense of shared identity. Encouraging effective rule-of-law (especially in post-conflict societies), and developing a new set of formal institutions for managing exchange that complements existing informal institutions, is a high priority. Social cohesion in transitional countries is driven by three general concerns. First, to maintain a measure of equality and inclusiveness as free(er) markets reward the skills of some more than others. Second, to forge a sense of trust, confidence, and cooperation where previously there was suspicion, paranoia, and deceit (Secret Police, etc.). Third, to construct transparent, accountable, and flexible public institutions for managing new forms of risk and reward.

A common set of questions unites this literature, however, perhaps the most fundamental being: How do countries keep their societies cohesive (intact) during times of significant change and transformation in the face of the harshness of global economic processes? A sub-set of questions includes much more complex (and theoretical) questions, such as: Why do individuals form social groups? What are the bases for inclusion and exclusion? How are conflicting interests negotiated and if required to, how are they managed?

We are hardly the first to ponder these questions. Emile Durkheim, one of the founders of modern sociology, believed that if all members of a society were anchored in a common set of symbolic representations — to common assumptions about the world they live in — moral unity could be restored. Without these moorings, he argued, any society, primitive or modern, was bound to degenerate and decay, to be left unprotected against existential crises. One can ask of policymakers, political leaders and others who “celebrate diversity”, whether there needs to be “a common set of symbolic representations” or “common assumptions” (a set of values and objectives that a society or community coalesces around) in order to bring about the desired change. If indeed there is a set of common values, or assumptions, what ought they be? Whose ought they be? These questions become critical for development and for uprooting poverty during times of great social change (of the type commonly associated with developing countries) and when broader, systemic transformation undermines or challenges existing (familiar or traditional) systems of economic, social, and political organization. These are among the questions that arise from the literature on social cohesion and are implicit, too, in the World Bank’s policy debate on development.

To understand social cohesion, one ought perhaps to take a step back and look at social exclusion and its four main causes. In its economic dimension, exclusion is first and foremost linked to poverty. Although in some instances it may be the cause, in general it is understood to be largely the result of poverty. The unemployed are typically excluded from mainstream economic activity and are, therefore, denied access to property and credit. In most of the developing world, especially Africa, long-term unemployment has rendered many people unemployable. The second dimension is social: unemployment does more than deprive one of an income, in most societies unemployment greatly reduces one’s status in society. Exclusion takes on a political (third) character when certain categories of the population (women, ethnic,

racial and religious groups, especially minorities) are deprived of access to their rights. A fourth dimension is identified as “non-sustainable modes of development”. This is explained as development that compromises the survival of future generations, and which excludes them from the benefits of feasible, durable development.

There is a very short leap, conceptually, between social exclusion and social cohesion; indeed, they can be understood as two sides of a coin. However, addressing exclusion and developing more cohesive societies is a task complicated by lack of coherence in the understanding of what makes a country or a community cohesive, and when the prevailing orthodoxy equates society with economy. The notion of exclusion raises the point that there are often pockets of disaffected and/or marginalized groups within society — which can cause rupture and stand in the way of development or integration. For instance, whereas cohesive communities are able to identify problems, prepare objectives, develop strategies to meet those objectives and put them into action, distinct pockets of cohesion may fracture and divide the community or broader society and undermine the trust that is essential to collective action. Listening to the concerns of isolated groups, and incorporating them into the broader vision of society, is an important task for politicians.

In the context of globalization, social cohesion enables us to recognize the continuous process whereby individuals and groups are included or excluded from participation within wider society. It can also refer to the measure of shared values, or to a willingness, refusal or indifference to face common challenges in a society. These are influenced, in turn, by any combination of a variety of factors such as, for example, ethnicity, culture, religion, gender, education, class, physical disability and associations of choice.

Heyneman (2000) identifies two useful starting points for helping us arrange these multiple factors. He stresses that human co-operation turns on the presence of clear *institutional*

rules, which guide all types of organizations, and the *stabilizing traditions* within these organizations. Following North, Heyneman defines *institutional rules* as codes of public conduct, norms of behavior, manifest statutes, common law and contracts among individuals and organizations. Stabilizing traditions within each organization differ from one another. He reduces organizations to four main categories (political, economic, social and educational), each making its own contribution to social cohesion.

Heyneman draws a special link between social cohesion and education. This is interesting, because the social capital literature has traditionally stressed the role of communities and parents in school performance; the social cohesion literature, Heyneman implies, argues that the causal arrow may also run in the opposite direction. He identifies three ways in which education contributes to social cohesion. First, it helps provide public knowledge about social contracts among individuals and between individuals and the state. Second, schools help provide the context within which students learn the appropriate behavior for upholding social contracts, by providing students with a range of experiences in which they learn how to negotiate with people, problems, and opportunities they might not otherwise encounter. As Heyneman (2000: 177) puts it, “the principle rationale, and the reasons nations invest in public education, have traditionally been the social purpose of schooling... The principle task of public schooling, properly organized and delivered, has traditionally been to create harmony within a nation of divergent peoples.” Third, education helps provide an understanding of the expected consequences of breaking social contracts; indeed, it helps citizens understand and appreciate the very idea of a social contract. An important implication of Heyneman’s arguments is that measuring human capital simply in terms of “years of schooling” may be missing a vitally important component, namely that the quality of education matters as much as — if not more than — quantity.

If social cohesion matters for the well-being of all societies, it becomes necessary to ask, who, or what, vehicle is most suited to creating, or engendering, it? The literature places the burden before governments and most arguments converge on education as the key. Given the vital role the state has in shaping the context and climate within which civil society is organized, it can, in some cases, also actively help to create social capital — this is one of the conclusions of the forthcoming World Development Report (WDR 2000). Can or should the state play a similar role in the creation of social cohesion? If so, what should the role of the state be? Here we have to move to the policy environment, where international, regional and national efforts have been underway for most of the past ten years to try and identify the problems caused by social exclusion and the range of responses required for greater social cohesion. Learning the lessons from these efforts, and incorporating more reliable and valid measures of social cohesion into our research programs, is an important next step.

3. Measuring Social Cohesion

Social cohesion as an aptitude has to be proven by showing that it is working, that it does render social change of the type which benefits long-run development. One encounters in the literature a great number of different measures, both direct and indirect. Among the direct measures are:

- Measures on membership rates of organizations and participation in organizations
- Measures on social relations and trust
- Performance measures of public and private institutions

Indirect measures are related to structural factors such as class, ethnicity, and gender inequalities, which may undermine the capacity of different groups to work together, like

- Income distribution measures (Gini coefficients, and share of income to middle 60%)

- Ethnic heterogeneity ('ethno-linguistic fractionalization')
- Measures of gender discrimination in education, income, and health

Robert Putnam's important work uses membership of organizations as a measure of social cohesion. There are sharp differences, however, between his assessment of the US and that of many European countries, where indeed social cohesion went up as measured in this way. Is this variance in "social cohesion" — as measured by a richness of participatory processes in organizations — related to strong variance in social and economic policy reform? I do not think so. Hence I question whether Putnam's measure is that relevant for social cohesion as I have defined it. The results presented by Steve Knack at this conference seem to support this.

Social relations have been measured in developing countries by Deepa Narayan and her collaborators (e.g. Narayan and Pritchett 1999), but mostly on a micro (community) scale. At that level they are shown to be significant predictors of an aptitude for cooperation and trust. The same holds true for measures of political trust (Knack and Keefer 1997). New surveys being conducted around the world, including OECD countries such as Australia and members of the European Union, promise to yield significant new insights, and will allow us to address these issues with much greater confidence.

In the meantime, one can use a variety of other societal measures to proxy for social cohesion (or its absence). Measures of income distribution, for example, such as the Gini coefficient, have been used by Dani Rodrik (1999) to address issues pertaining to economic divisions in society. William Easterly (2000) finds that what he calls the "middle class consensus" (i.e. a social inequality index that includes the share of income going to the middle 60% of the population) is a better measure. The latter measure definitely gives a better explanation for the OECD countries. Within these countries, the USA has the second-largest Gini coefficient (0.39 in 1997); Turkey has the highest (0.41), while Finland has the lowest

(0.24). Yet it would be very difficult to show that these differences in Ginis are predictors of enormous differences in aptitude for change (and consequently in change). The measure of middle-class consensus is more equal across OECD countries than the Gini coefficient (see Figure 2). This is why we need to consider politics.

[Figure 2 about here]

Consider, for example, the recent interest in corruption (e.g. La Porta et al. 1997). A central hypothesis emerging from my social cohesion framework is that corruption will greatly undermine a government's 'room-for-maneuver', in the sense that it will distort the signals and incentives being received by policymakers, and also erode confidence in public institutions. Arguments that corruption "greases the wheels" of growth simply do not stand up to empirical scrutiny (Tanzi and Davoodi 1997).

4. Social Cohesion and Economic Performance in the OECD Countries

In the passages that follow, I wish to briefly review the evidence in support of this general framework. The most careful work to date has been conducted on developing countries, and I will present some of it here. If the arguments hold true across a broader range of cases, however, we should also expect them to be true of OECD countries.

The central story of economic growth over the last 50 years has been the contrast between the years 1950-1974 and 1975-2000. The former was a time of general prosperity, in which all strategies yielded positive outcomes; rich and poor countries, open and closed economies, temperate and tropical countries — everyone did well. The twenty-year period between 1974 and 1994, however, was disastrous for virtually everyone except the East Asian

Tigers; the developing world, in particular, suffered an enormous growth collapse, from which it has only recently emerged. Figure 3 presents the annual median growth rates over this period, and contrasts the performance of OECD and developing countries.

[Figure 3 about here]

While the causes of the global recession in the 1974-1994 period are fairly well-known, it is instructive to examine some of the differences between those countries that weathered the storm, and those that did not. Rodrik (1999) finds compelling evidence for a large sample of developing countries that weak public institutions and divided societies performed significantly worse than did those with high quality institutions and united societies. Although the sample of OECD countries is smaller, it is my hypothesis that a similar story — though perhaps with a different twist — can be told. Clearly the OECD countries have a vast stock of sophisticated insurance mechanisms and safety nets (unemployment benefits, old-age and disability pensions, etc.) that help to keep citizens more or less in the same boat. But what about non-citizens? My suspicion is that our formal statistics fail to capture the large number of people — the poor, illegal immigrants — who fall through the cracks. Even given these factors, it is interesting to note that corruption remains an important issue for OECD countries. As Figure 4 shows, OECD countries with (relatively) high levels of corruption lag behind their counterparts with more transparent and open institutions.⁵ For countries that depend enormously on formal institutions to manage vast and complex economic activities, continuing to support and improve public and

⁵ Note that the corruption index measures the degree of transparency and accountability in public institutions, hence higher levels of corruption are associated with lower scores.

private institutions is vital for reaching the poor. Indeed, less corrupt institutions are empirically linked with pro-poor growth (Figure 5).

[Figures 4 and 5 about here]

5. Conclusion

Let me conclude by pulling together some of the strands of this paper. On the preceding pages I have drawn attention to several points. The first of these is the need for a deeper consideration of, and a more focused research agenda into, the cohesiveness of societies and the quality of public institutions, and their relationship to sustained growth. We need to know a lot more about how to manage equitably the costs and benefits associated with the transformation of society, especially how to foster a greater sense of cooperation and inclusion in environments where there is division and hatred. This is an issue for all countries, not just those in the developing world. Building social cohesion matters as much in Ireland as it does in Somalia.

While these problems are enormously challenging, I think we can be greatly encouraged by the recognition that our definitions and conceptions of development have evolved quite dramatically in recent years. The accomplishments and recent traumas in East and South East Asia, the difficulties of building market institutions in former planned economies, and major conferences such as the UN Summit on Social Development, have shown us just how important it is to invest in the human and social dimensions of development. Healthy, educated people are not only more productive workers, they are also better parents, better neighbors, and better citizens. It is my hope that recent events have also taught us the importance of being more humble — though no less committed — in our approach to poverty reduction, of listening more and talking less.

Taking stock of the historical record also reveals that even when it is done well, development is inherently fraught with controversy, that rising prosperity necessarily alters the balance of power in society. As the social historian Theda Skocpol (1979) notes, revolutions are more likely to occur when conditions are *improving*, not deteriorating. This means that we must pay special attention to designing policies and projects that protect the most vulnerable members of society. My colleague Joe Stiglitz (1998) observes that development “represents a *transformation* of society, a movement from traditional relations, traditional ways of thinking, traditional ways of dealing with health and education, traditional methods of production, to more ‘modern’ ways” (p.3; emphasis in original). Adopting and adapting these “more modern ways” is no easy task. Among other things, it requires credible local leaders who are able to articulate the interests and aspirations of the people, to identify a set of objectives and ideals around which those can coalesce. It requires a genuine sense of ownership and responsibility on the part of all stakeholders, and a commitment to work together.

Let me finish by returning to the paradox with which this paper began. The paradox was that the increasing scale and scope of our global economic affairs is simultaneously reawakening our sensitivities towards local issues and identities. An important feature of this paradox is that its resolution depends on overcoming two corresponding trends militating against it, namely increasing inequality (Pritchett 1997) and increasing volatility. The technology that makes life more stimulating, cosmopolitan, and prosperous for some is making it more precarious and uncertain for many others. Managing the risks and rewards of globalization is thus the key policy challenge of our time. Doing so effectively and responsibly will entail giving renewed attention to social safety nets protecting the most vulnerable members of society. It will entail building more responsive and accountable public institutions that can anticipate problems, and make swift adjustments. It will entail encouraging leadership across all levels of society — from

soccer coaches and classroom teachers to business executives and heads of state — to build bridges across the widening social and economic divides.

An inclusive economy and society requires a serious commitment to building and maintaining social cohesion. It matters in all countries and for all members of society, especially the poor, and their prospects of living with a sense of empowerment, security, and opportunity. I hope you will join us at the World Bank in helping to make that dream a reality.

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Figure 1

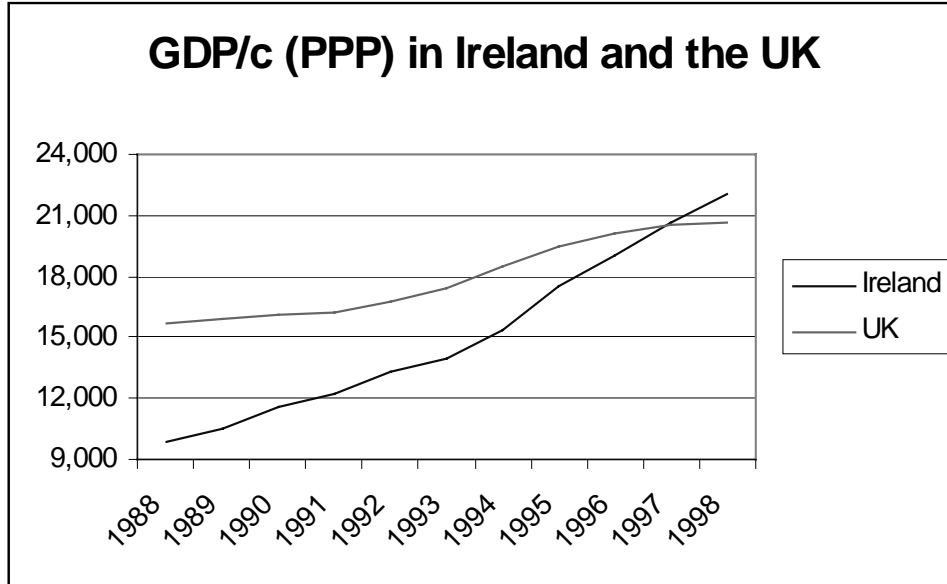


Figure 4

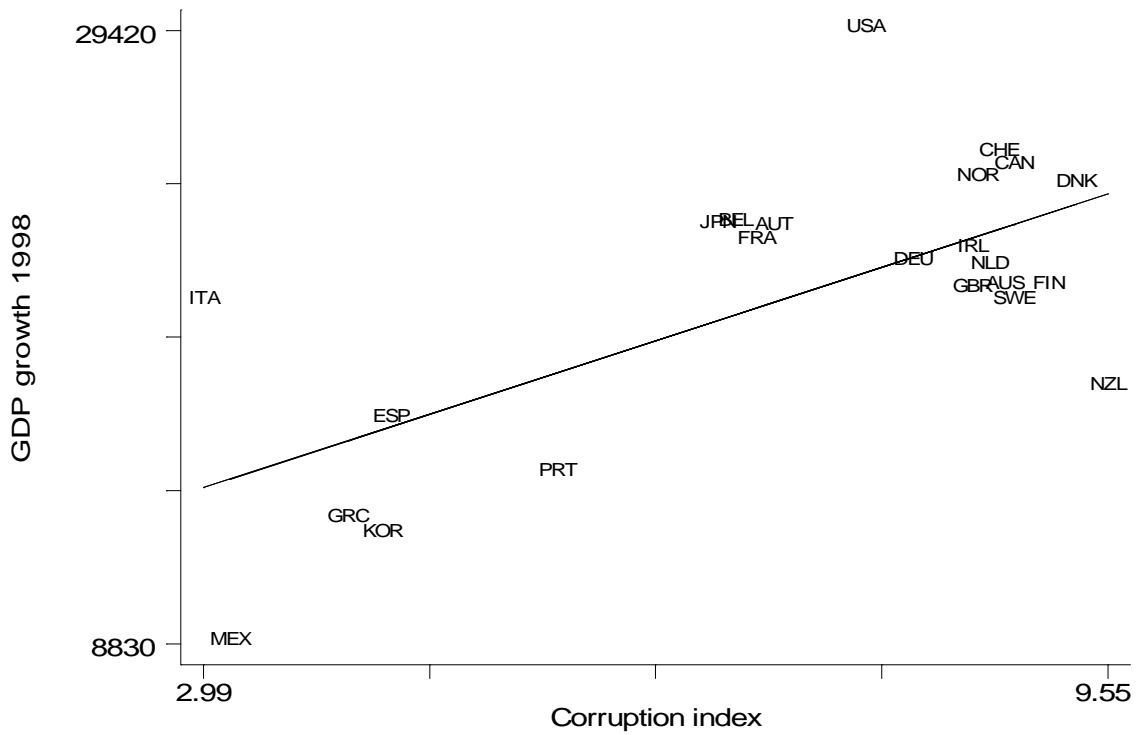


Figure 2

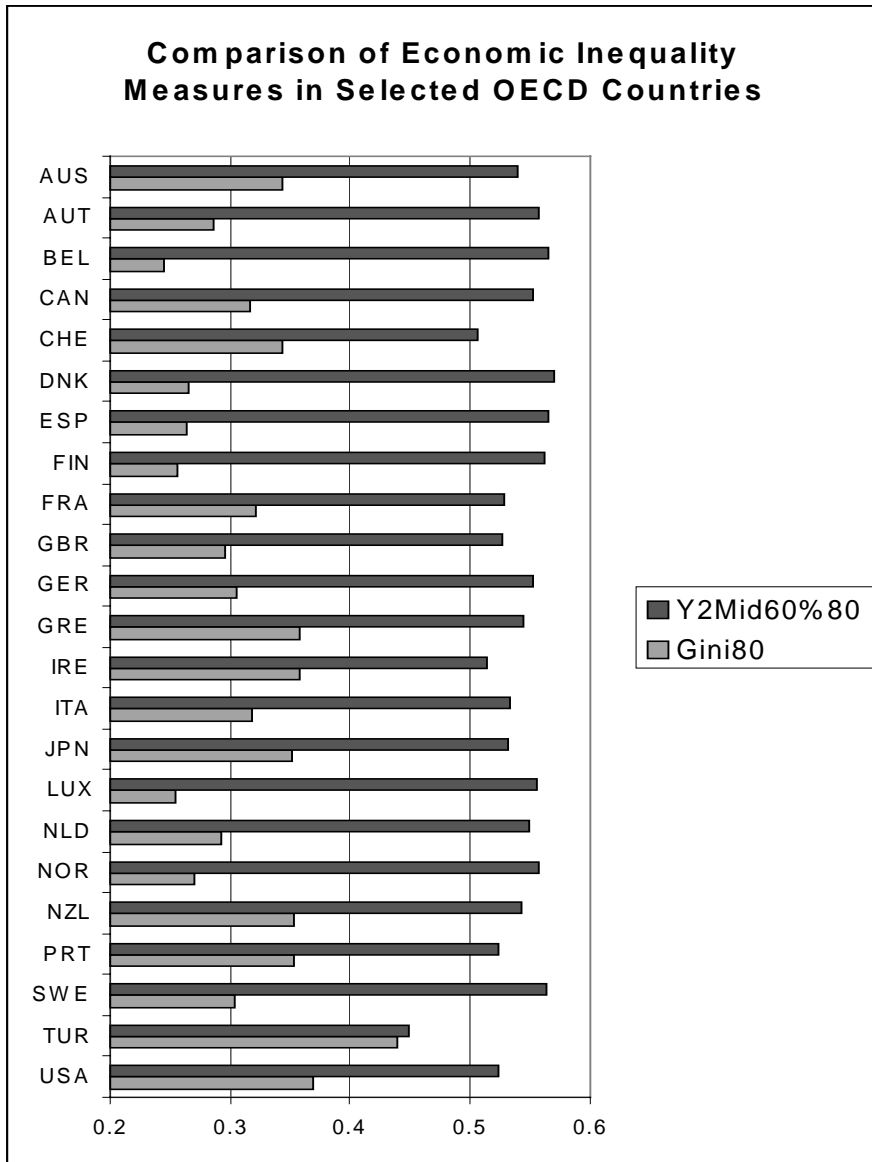


Figure 3

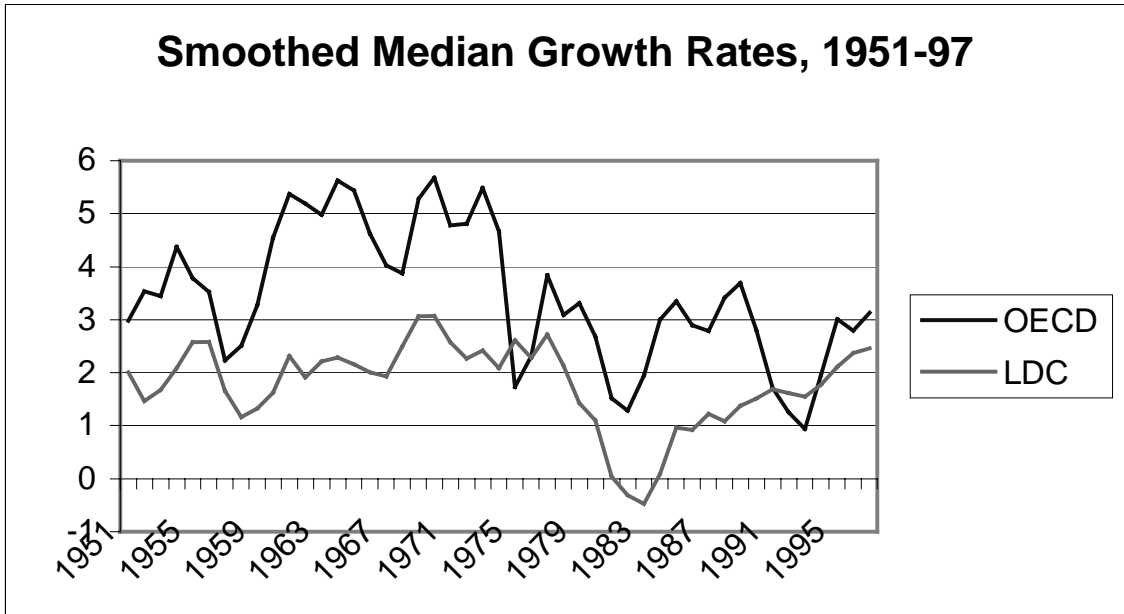
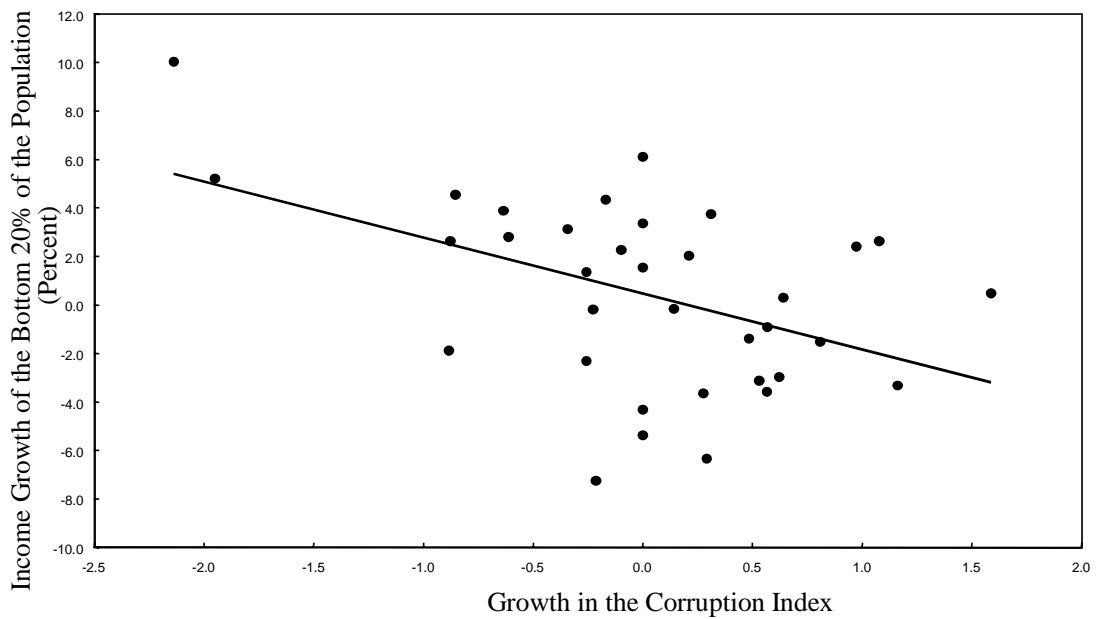


Figure 5



Appendix 1: Various Definitions of Social Cohesion

Canada

Social cohesion is an ongoing process of developing a community of shared values, shared challenges and equal opportunities within Canada, based on a sense of trust, hope and reciprocity among all Canadians

France

Social cohesion is a set of social processes that help instill in individuals the sense of belonging to the same community and the feeling that they are recognised as members of that community.

New Zealand

Social cohesion describes where different groups and institutions knit together effectively despite differences. It reflects a high degree of willingness to work together, taking into account diverse needs and priorities. Social cohesion is underpinned by the four following conditions:

1. Individual opportunities - including education, jobs and health
2. Family well-being - including parental responsibility
3. Strong Communities - including safe and reliant communities
4. National identity - including history, heritage, culture and rights and entitlements of citizenship

Australia

Social cohesion is the bond between communities of people who co-exist, interact and support each other through material means and by sharing group beliefs, customs and expectations.

Denmark

Social cohesion refers to a situation where everyone has access to establishing basic social relationships in society, such as, work participation, family life, political participation and activities in civil society.

European Union

Article 2 of the Treaty of the European Union states that the tasks of the union included: "Maintaining economic and social cohesion and solidarity between all member states of the Union".

The objective of social cohesion implies a reconciliation of a system of organization based on market forces, freedom of opportunity and enterprise, with a commitment to the values of solidarity and mutual support which ensures open access to benefit and to provide protection for all members of society.

Source: Canadian Government (1999)

Appendix 2: A Conceptual Framework

