

## Commentary

Jo Ritzen<sup>1</sup>

Allow me to first compliment the organizers of this conference. I have seen very few conferences which were so well prepared. Also compliments for the choice of the topic. In the past decade Tom Alexander and I have been involved in many informal meetings of OECD ministers of education. One of the main topics in these meetings was the intangible, the unseen, the mysterious which was viewed by ministers as probably the most important. More important possibly than physical capital or natural resources, equally or more important than human capital was this fluid spirit of social cohesion or social capital. I will use both terms as synonyms for the time being and come back to the distinction later.

The keynote address and the three papers presented in this session are important contributions to the topic. They provide part of the variety of issues involved. I will comment on them one by one trying to focus on what we have learned in the past decade, but also where major questions still are unanswered. In general, in human capital, progress has been slow, indicating maybe decreasing marginal products. Running out of steam, the major step ahead in human capital seems to be to shift from crude output measures, like years of education to more refined measures, like achievement. In contrast to human capital, progress in social cohesion has been fast. Here the major challenge is to bring the research into the policy domain. Particularly, the question of how to influence social cohesion by means of individual or collective action is to be addressed more forcefully. Mike Woolcock challenges us to think about 6 directions. I noted that he did not mention education.

Bob Barro's keynote address is an excellent example of where we are. He highlights the importance of refined measures of human capital. His paper is also an illumination of the general point that the proceeds from all kinds of capital, whether natural resources, land, physical capital or human capital, are enhanced through social capital/social cohesion, as proxied in his paper by the rule of law.

Two points of comment:

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<sup>1</sup> Vice President for Development Policy, the World Bank.

1. There is one major omission in his paper, as, I believe, also in his 1997 book and this pertains to 2 characteristics of the public sector. The first characteristic is that the public sector is accounted for in GDP not by its contribution, but by its wages. These wages are set by public choice rather arbitrarily and do not need to reflect marginal productivity in the short-run. OECD countries show a huge variation in the ratio of public sector wages to private sector wages, which can only be explained by short-run erratic deviations from marginal productivity.

A second characteristic is that the public sector is the most human capital intensive sector of a country. This is definitely the case where education is public. The education sector is - with the medical sector - the most human capital intensive sector.

These two characteristics of the public sector play a greater role the larger the public sector is and much less so in the US, where the public sector traditionally is smaller than in the EU. I would recommend to redoing the analysis of Bob Barro taking the public sector out.

2. I like Barro's expansion into the domain of achievement tests. At the same time, he may be measuring something different. He finds that the science test scores are the major contributor to growth. This result, however, looks quite different on second look. The science test scores differ substantially between the Asian countries and the Western countries. At the same time, growth rates also differ substantially. So I would suggest that "science scores" is more a dummy for the Asian Miracle.

I would not have said this if the Western outliers had behaved according to the Asian pattern. These outliers are the Netherlands and Sweden. There the science scores are higher and almost on "Asian" levels. Yet growth was more on the Western level.

Gunnar Eliasson's paper is one of his contributions to the role of knowledge in growth. It underlines the importance of the social framework for reaping the benefits from human capital. Here the social framework should be conducive to having new firms

easily entering and exiting. Some social frameworks allow this more than others. Bankruptcy, for example, is not accepted socially in many countries. This decreases the potential for entry if the penalty for not succeeding is being a social outcast, or worse - as one sees in post-crisis Indonesia - when firms which are bankrupt do not go bankrupt, breaking down the financial system. Another suggestion to him would be to treat codified knowledge on the same footing as tacit knowledge.

Mike Woolcock has become in the past 2 years a major force in the resurgence of research on social capital. I find his paper very convincing indeed. Especially, the point he made in discussion about using public space more effectively in order to grow social capital appeals to me. (I thought this was a personal preference but now I have a logic to support it). On one point it appears that he is too abrupt, i.e. on the distinction between sources and consequences of social capital. There is a bridge between the two notions. Not all networks relations, norms, etc., (sources) contribute to social capital. It might be useful to limit the definition of social capital to those networks relations and norms, etc., which potentially can contribute to ... yes, and then what? There we need the debate. I would forward that social capital should contribute to decisions in societies which have a net benefit in the longer-run with short-run costs (outweighed by the benefits) through the ability to cooperate. This is presumably Schuller's view: social capital as an enabler.

Tom Schuller's paper presents a good overview. I wish to comment on two of his points.

1. He introduces the notion of a moral dimension implied in social cohesion or social capital. This is certainly the case if governments actively promote norms and values. But how do we reconcile this with the freedom of the individual to set - within the Constitution and the law - those values and norms himself? This is not just an academic question. It has been a broad political debate in many EU countries.
2. Tom challenges us to rethink the length of the time period of formal education from the point of view that social capital is acquired outside formal schooling and that social capital counts. For me this conclusion is much too rashly taken. Lengthening formal education may indeed have contributed less to equality of

opportunity than previously thought. But it remains an important contributing factor.

All these comments are of the nature: debate now and more research later is needed. Let me underline again that I made the comments with admiration for the four presentations.