

Commentary

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From the papers presented at this conference, I have become convinced that ‘social capital,’ thought of as ‘social cohesion,’ is important for sustaining economic progress and living environments that foster well-being. This, even though I have great difficulty ‘pinning down’ the concept, both definitionally and empirically. I have particular difficulty specifying the micro- linkages in the box that connects social capital to economic performance and well-being.

In spite of these difficulties, I accept for purposes of discussion the importance of social capital, and turn to the relevant questions of:

- How can social capital be increased?
- Are underlying trends that we observe and anticipate likely to increase or to decrease the formation of social capital?
- Are there policy interventions or research strategies that might foster the increase of social capital over the long-run?

Edward Glaeser’s paper provides an ideal framework on which to build in seeking to answer these questions. This framework forces consistency and rigor in analyzing the determinants of individual choices that influence the overall level of social capital. While the ‘individual social skills’ basis for social capital accumulation implicit in Professor Glaeser’s framework is open to question, the approach that it embodies sets the standard for thinking

rigorously about social capital formation. Those holding alternative views regarding the nature of social capital need to nest them within a similar rigorous framework if they are to be taken seriously.

In my comments, I will characterize Glaeser's model, and then make use of it in suggesting some answers to these questions.

The Glaeser Model of Social Capital Accumulation

Professor Glaeser has a particular view of what social capital consists, and it is important that this view be understood before exploring his model of social capital accumulation.

Let us define Social Capital, denoted by SK, to be 'shared contact' among members of a community:

$$SK = \text{Shared Contact}$$

In his view, the level of Shared Contact depends on the individual social skills possessed by the members of a community – their facility and interest in interacting with their neighbors, peers, and community members more generally²:

$$\text{Shared Contact} = f(\sum \text{individual social skills})$$

The social skills possessed by an individual, S_i , depend on the characteristics of the person, some of which are inherent and others of which can be learned:

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2 This step in the framework deserves close scrutiny. Do individual social skills translate into 'shared contact,' and if so, how? Does

$$S_i = f(\text{Charisma, Openness, Friendliness, Persuasiveness, Oral Expressiveness, etc.})$$

Given these definitions, Figure 1 depicts the determination of the level of S_i chosen by any individual, and compares that individual optimum level with the social optimum. The individual's private demand for S is given by the Marginal Private Benefit curve, MPB, which is a standard willingness to pay curve for a good or service of value to a person.

The MPB of any person will depend on a variety of factors in Glaeser's model. Individuals obtain benefits from possessing S_i that can be immediately turned into money; for example, the greater the level of social skills, the higher the market demand for the services of the person. Hence, the level of the MPB curve depends positively on these private market returns. In addition, there are payoffs from having social skills that are not rewarded in the market; these are the nonmarket private returns from social skills. For example, being open and friendly may enable the person to have more influence on outcomes in the home or workplace which convey satisfaction, even though they don't pay off in increased income. Moreover, the longer the person's time horizon, the greater the willingness to pay for social skills; they can be used to generate market and nonmarket returns over a longer span of time. Similarly, holding other things constant, a person who discounts heavily any benefits from these skills that will materialize only in the distant future will have a lower marginal willingness to pay for them than a person who does not so heavily discount future effects. Hence, the level of the MPB curve will depend positively on the person's marginal rate of time preference, or discount rate.

This can be stated as follows:

increased shared contact necessarily mean increased social capital? Does not the answer to this depend on the precise definition of social capital?

$$\text{MPB} = f(\text{private market returns } [+]; \text{ private nonmarket returns } [+]; \text{ time horizon } [+]; \text{ rate of time preference } [-])$$

However, in addition to these private benefits, the level of S_i chosen by any individual also carries with it “external” or spillover benefits that accrue to society more generally; call these the Marginal Social Benefit of S_i , or MSB. Because these returns are both external and nonmarketed, the individual is not automatically rewarded for providing them.

$$\text{MSB} = f(\text{external, nonmarket returns})$$

The total social willingness to pay for any amount of S_i that a person possesses is then the sum of the MPB and MSB; call it Marginal Total Benefit, MTB. It is the total willingness to pay for units of S_i .

$$\text{MTB} = \text{MPB} + \text{MSB}$$

However, securing S_i is costly, and the costs are mainly the time and other resource costs of acquiring the characteristics that compose social skills, such as openness and friendliness. If we assume that the only component of these costs is the individual’s own time, then we can draw the marginal cost of acquiring additional units of social skills, which will be an upward sloping function indicating increasing marginal costs. In the diagram, the Marginal Cost of social skill acquisition is labeled MC.

$$MC = \text{Time} \times \text{Value of Time}$$

With these constructs, then, the operation of Professor Glaeser's model is clear. Left to make their own choices, individuals will maximize their private well-being by choosing a level of S_i equal to S_p . The 'price' that the individual pays for this level of social skills is P . However, the optimum level of social skills for that person, as viewed by society as a whole, is S_T , a greater amount. At the margin, society would be willing to pay a 'price' of P^* for the social optimum level of the person's social skills. Left to only private choices, a less than optimum level of social skills will be the outcome. As a result, the total level of Shared Contact, or Social Capital (SK), will be less than the socially optimum level.

Given this conclusion, the issue becomes: What can be done to move the level of private choices regarding the acquisition of S_i closer to the social optimum?

In developing the implications of his model so as to provide a richer answer to this question, Professor Glaeser makes three additional assumptions that allow some important conclusions to be drawn from this framework. First, he assumes that S_i is jointly produced with schooling; the more education a person acquires, the higher the level of the person's social skills. Second, S_i is also acquired by working in jobs or living in communities that have a high level of social intensity; working in such jobs or living in such communities enhances a person's overall level of social skills. Finally, the level of social skills, S_i , that a person acquires will be limited by the ethnic/linguistic heterogeneity of the environment in which he/she lives. In effect, Professor Glaeser assumes that such diversity inhibits the acquisition of social skills.

After adding these assumptions, Professor Glaeser has a framework that describes the

determinants of private social skill acquisition, and hence social capital, SK.

SK = f (time horizon [+]
discount rate [-]
opportunity cost of time [-]
vestedness in socially intense jobs or communities [+]
level of schooling [+]
racial/ethnic heterogeneity of environment [-]
other factors [?])

What Can Be Done to Increase Social Capital?

Given this model, then, one can systematically explore the factors that either contribute to or detract from the accumulation of social capital. Taking the model at its most basic level, the answer is clear: Anything that will reduce the costs of acquiring S_i , or raise the benefits to the individual of S_i (MPB), or enable the external benefits of S_i (MSB) to be captured by the individual will lead to an increase in SK.

However, this is a rather abstract answer. Given the model and the assumptions made by Professor Glaeser regarding it, one can use the framework to indicate some rather concrete factors that could lead to increases in SK; factors that themselves either reduce the costs of S_i development, or raise the benefits from holding S_i , or enable the MSB of S_i to be captured by the individual. A little thought suggests that the following changes, some of which are affected by public policy, can lead to increased accumulation of social capital, SK:

- Increased levels of schooling
- Increased school effectiveness
- Increased emphasis on the development of social skills in school

- Reduced rate of time preference (or, a lower interest rate)
- Increase in available discretionary time (perhaps through reduced work time)³
- Reduced ethnic/linguistic heterogeneity
- Reduced barriers among ethnic or racial groups
- Increase in community or job vestedness (e.g. home ownership)⁴
- Increase in the social content of jobs and communities
- Reduced market failures (e.g. information, access) in the production of S_i
- Subsidized production or use of social skills
- Taxed or restricted production or use of nonsocial (e.g. technical) skills.

This is a long and disparate list of the determinants of SK that are revealed by this conceptual framework. Some of them seem straightforward and attainable, while others seem difficult to secure. While some of these changes seem attractive in their own right, others do not. For example, the reduction in the ethnic or linguistic heterogeneity of nations or communities is clearly not a universally shared social objective.

Implications of Long-Term Trends for the Accumulation of Social Capital

One of the benefits of this framework is that it enables us to roughly assess the implications of a number of demographic, social and policy trends on the level of social capital development. In what follows, I identify a number of these trends, and attempt to characterize the probable relationship between each and the prospects for social capital accumulation.

³ An increase in available discretionary time would decrease the costs of time spent in acquiring S_i .

One of the most widely recognized demographic changes affecting nearly every nation is the ageing of the population. As the average age of the population increases relative to increases in longevity, the time horizon of the typical citizen becomes shorter, and hence less is likely to be invested in the accumulation of social skills, and hence social capital. A possible offsetting factor is that, as people retire, the level of discretionary time that they have available increases, hence reducing the cost of developing those social skills that are the constituents of social capital.

Another trend that has been observed in most OECD countries is an increase in income inequality, which trend shows little tendency to reverse itself.⁵ Unlike the ageing of the population, the increase in inequality seems likely to have primarily negative effects on the accumulation of social capital. Because of sagging wage rates, there are two, potentially offsetting, effects on low human capital citizens. The reduced wage rate that they face implies a lower value of their time, hence shifting down the marginal cost of investing in social skills. Depending on the elasticity of their demand for social skills, this effect may lead to a large or small increase in the level of social skill investment that they choose. Counter to this effect is the need of low human capital people to increase their work effort in order to maintain above poverty incomes in the face of sagging wages. If they respond by increasing their work time, the discretionary time that they would have available is likely to be reduced by the growth in inequality. The conceptual framework suggests that this reduction in discretionary time will result in lower efforts to increase social skills; social capital accumulation is likely to suffer.

4 An increase in involvement in socially intense jobs or communities will increase the payout period for S_1 ; it will expand the time horizon over which social skills convey private benefits.

5 It is at this point that Professor Osberg's paper relates to the issue of social capital formation. His powerful study reminds us that the economic well-being of a society consists of more than income or production, but that other factors, some with links to the social capital concept, are also important determinants of a nation's social health and potential for sustained growth. While one can quibble with his specific nonincome components of well-being, his measures of them, and his aggregation technique, they would only be quibbles. A clear next step for his work is to explore the inequality in the distribution of a more full-bodied measure of economic well-being, and the trend in the inequality of well-being.

Individuals at the other end of the income distribution are likely to spend their income purchasing additional leisure and privacy for themselves; both of these appear to have high income elasticities of demand. While the additional leisure could be used for investing in social skills, the apparent desire for increased privacy (e.g. second homes, exotic travel, private airplanes, private yachts) suggests little attention to the further accumulation of such skills or to increased vestedness in community. Moreover, because the growth in economic inequality has such a strong racial dimension in many OECD countries, the level of ethnic/linguistic separation is likely to be increased; again social capital accumulation is likely to suffer.

In spite of the growth in inequality, many OECD countries appear to be placing increasingly high weight on work-oriented social measures, such as welfare reform. In the context of Professor Glaeser's model, this trend would seem to have both positive and negative effects on social capital accumulation. While the reduced discretionary time available to poor families affected by the policy is likely to negatively affect social capital accumulation, the increase in social interaction associated with holding a job is likely to increase social skills and, hence, social capital.

Such social policy reforms tend to be accompanied by measures designed to increase labor market flexibility. Job and geographic mobility are accompaniments of such flexibility, as is the use of layoffs, downsizing measures, and the hiring of temporary or contingent workers. These changed labor market institutions are likely to lead to reduced vestedness in job and community, and hence less social capital development. Countering this, however, is the increased precariousness of economic status and the pressure that creates for increasing human capital, one component of which is increased social skills. Only if the latter effect dominates the former will there be increased accumulation of social capital.

For many OECD member countries, increased immigration has been experienced or is anticipated. Because none of these nations are natural 'melting pots,' the result is likely to be increased ethnic/linguistic heterogeneity and separation. This group isolation, or antagonism, hardly promotes incentives for the creation of social skills and voluntary social interactions. Again, social capital accumulation is not likely to be enhanced.

The trend toward the increased prevalence of single parent families, and smaller completed family sizes, suggests less interaction by children with either their parents or their siblings. Because the development of social skills is enhanced by such interactions, the reduction in the opportunity for intrafamily interactions would seem to inhibit the development of social skills and hence social capital.

Countering this is a strong trend toward increased use of organized early child care outside of the home, much of which is 'enriched.' Clearly, among quality day care providers, the promotion of social interaction (e.g. participation and cooperation) and the development of social skills are high on the list of program objectives. If these institutions are successful in achieving these goals, social capital will be enhanced.

Two additional trends seem worth mentioning – the decrease in organized religion and the rapid increase in time spent in computer-oriented activities (e.g. accessing the world-wide web, or home-based work). Historically, religious organizations have been important centers of social interaction, and attending services has a strong social and interactive component. The disinterest in religion that is observed in many societies suggests reduced accumulation of social skills and diminished social capital through this channel. Similarly, the trend toward increased reliance on the computer and the web, and the growth in home-based work for those whose jobs rely on the computer, suggests less interaction, and less need to develop social skills. Working

on one's computer is a very private activity, eroding the need for accumulating social skills. Social capital accumulation would again seem to suffer.

These, then, are a few of the important trends that are now in evidence in most OECD member countries. The bulk of them suggest erosion in the incentives for accumulating social skills and promoting social interactions. On balance, I judge that these trends imply a reduced social capital accumulation.

A Few Implications

If, then, one takes seriously the concept of social capital that is implicit in Professor Glaeser's model, and the economic model itself, are there implications for social science research and for policy?

A few would seem worth noting. First, while this conceptual framework suggests a positive linkage between the accumulation of social skills (S_i) and marginal social benefits (MSB), the precise nature of this linkage seems not at all well-understood. Research efforts would serve us well if they could expose these relationships. For example, while enhanced social skills and the propensity to use them are presumed to lead to the accumulation of social capital, sustained economic growth, and enhanced social well-being, that is not necessarily the case. While many voluntary social organizations make a positive social contribution, surely not all do; Nazi youth groups in the 1930s and militia organizations today are voluntary and social arrangements!

Second, in the context of Professor Glaeser's framework individual tastes and preferences are taken as given and fixed. Yet, it is not at all clear to me that in this social dimension that is the case. Can policy measures, admonitions by national leaders, or efforts by nongovernmental

organizations directed at encouraging the development of social skills or participation in voluntary organizations with positive social benefits be effective in changing tastes? Is there a role for leaders and policies in increasing social capital accumulation, and if so, what is it? Perhaps that is the most important question, and it remains unanswered.

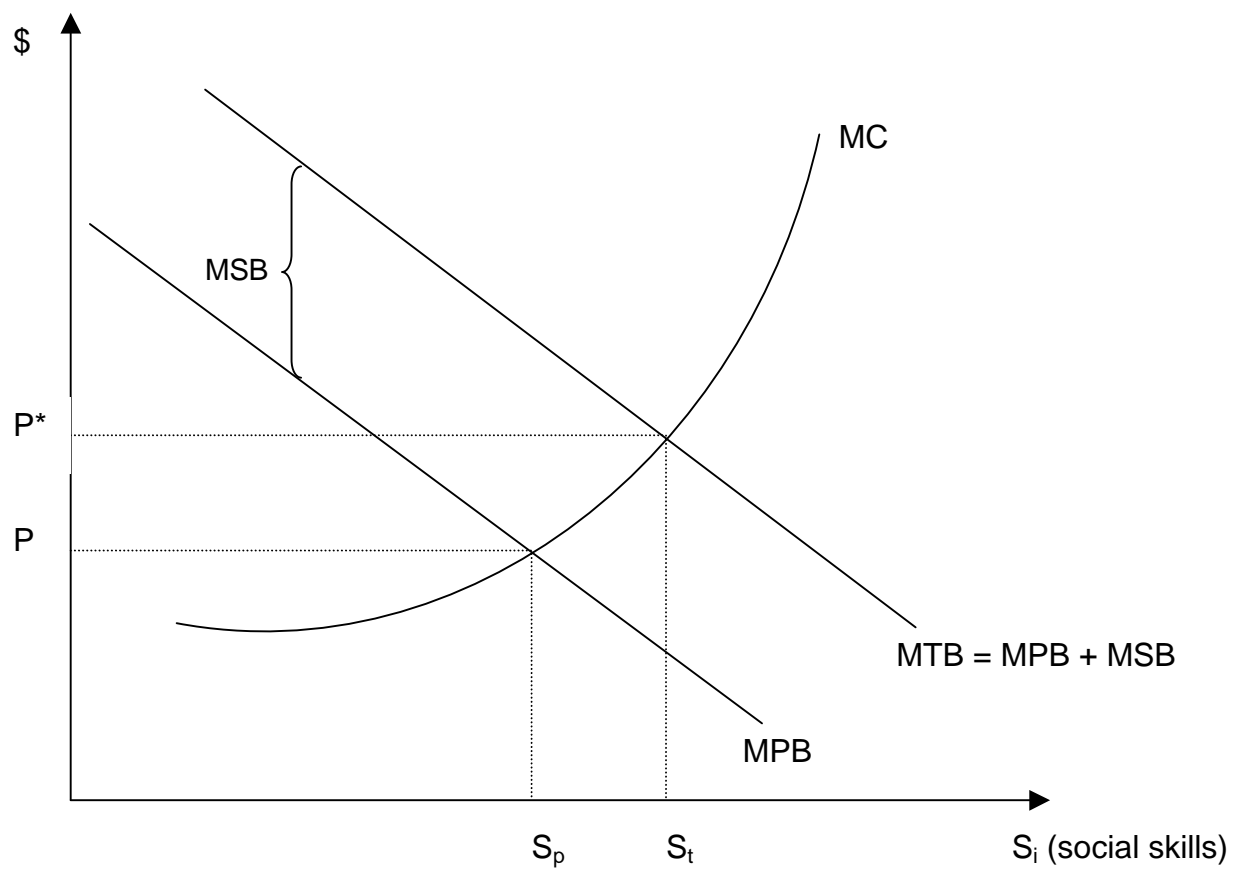


Figure 1