

INTERNATIONAL SYMPOSIUM

THE CONTRIBUTION OF HUMAN AND SOCIAL CAPITAL TO SUSTAINED ECONOMIC GROWTH AND WELL-BEING

AIMS OF THE WORKSHOP:

- To bring together a number of different perspectives and disciplines in the analysis of the contribution of human and social capital to economic growth, productivity, social cohesion and human well-being;
- To situate the important discussion of economic growth in a wider social context highlighting the various social antecedents of growth within which human and social capital play an important role as well as the broad “market” and “non-market” social returns to investment in lifelong learning;
- To clarify important concepts and relationships in the area of human and social capital and assess the role of public authorities in areas such as learning, social programs and labour market responsibility;
- Drawing on the work already carried out in the OECD on Human Capital Investment to identify possible new areas of research, data development and policy analysis;
- To link the experience of Canadian researchers and policy-advisors in these areas to international comparisons and analysis.

The Background

One of the most striking economic phenomenon of recent years has been the sharp disparity between growth rates across OECD countries. The consequences of this disparity, in terms of differing performances in employment and prosperity, have been a cause of concern both for politicians and for citizens. Added to this is a concern about how the fruits of economic growth are allocated between and within present and future generations. The inter-temporal and inter-generational equity aspects of economic growth are of growing importance given demographic and social pressures. Access to learning throughout life as well as active participation in the labour market remain important conditions for social cohesion and the maintenance of consensus on the reforms required to underpin sustained growth and well-being.

Responding to a mandate from Ministers meeting in the Council of the OECD in May 1999, a programme of work was initiated to identify some of the factors that influence growth, as well as policies that can strengthen overall economic performance. Ministers asked the OECD to study the causes of growth disparities, and identify factors and policies which could strengthen long-term growth performance. These include areas such as rapid technological innovations and the growing impact of the knowledge society and its demand on human capital. This complements a request by Ministers meeting in the Council in April 1998 for the OECD to undertake a study of key aspects of sustainable development over a three-year period. An Interim Report has been produced for the 1999 meeting of Ministers in which the maintenance of a “capital base” for economic growth has been stressed - i.e. physical, natural and human capital. The Report identifies human capital as a component of *social assets*.

In Canada, the *Policy Research Initiative* (PRI) of the Federal Government has produced a report in 1999 entitled *Sustaining Growth, Human Development and Social Cohesion in a Global World*. An emerging theme in that report which has also been echoed in statements of policy-advisors in Canada and elsewhere is that the inter-connectedness of issues across public policy domains needs to be

recognised and that in particular the social antecedents and outcomes of economic performance needs to be kept in view. The Report states that "Health care, crime, and educational achievement may all be "social" issues, but they have an important economic bottom line. Similarly, "growth" issues of employment, productivity, and competitiveness each contribute to social well-being and societal stability. Investigation of the hybrid nature or cross-over characteristics of policy issues (e.g., equity vs. efficiency) has sometimes been hampered by the natural tendency to label issues or restrict inquiry along well-established disciplinary paths. As the PRI evolves, it is confirming that some of the most fruitful lines of inquiry lie in breaking these habits (Chapter 2)". A key issue in Canada, as elsewhere, has been the apparent widening gap between economic growth and social well-being however the latter is measured.

In searching for differences in the underlying pattern of growth across countries, it is therefore necessary to keep the following in view:

1. Human capital and other types of social assets, including what has come to be known as social capital, have important monetary as well as non-monetary effects (e.g., better health, environment, parenting, lower crime and social cohesion) - however these performance benchmarks may not be moving in the same direction over time or across countries;
2. The so-called non-monetary effects of human and social capital feed back into economic performance providing institutional and social conditions conducive to sustained economic development – hence an analysis of social capabilities and social arrangements, going beyond that of a strict social capital one, is relevant to an understanding of growth determinants;
3. There is a close link between human capital and social assets since the latter embodies norms and values which are influenced by education and training systems while at the same time social assets facilitate learning in different milieux (e.g., families, communities and private-sector organizations) - hence there are policy issues in the education and training areas that extend beyond the mere accumulation of human capital.

THE ROLE OF HUMAN AND INTELLECTUAL CAPITAL

The OECD has already published a report entitled *Human Capital Investment - an International Comparison* in 1998. This was in response to a request by Ministers in 1996 addressed to the OECD to develop a set of indicators of investment in human capital and its economic and social returns and to identify areas where new data and knowledge need to be worked on. The request reflected a concern about the treatment of expenditure for education and training in public, corporate and national accounts. The evidence shown in the 1998 report indicated important labour market, macro-economic and broad social returns to investment in human capital. However, important gaps in the data were identified together with problems of comparability across countries and over time. The Report also identified the importance of situating an analysis of human capital in a wider context to that traditionally used to reflect the fact that learning takes place in a wide range of environments and stages of life and that policies to promote growth in the supply of human capital need to take account of the demand for skills and competence as well as the organisational and social environment in which individual skills are applied.

Human Capital has been traditionally understood to mean the knowledge, skills and competencies embodied in individuals. This has been an important concept in economic analysis for over three decades. Learning contributes to economic and social development through many channels. By enhancing skills of individuals in the workplace, investment in learning increases productivity and performance of enterprises and national economies. Higher levels of knowledge and skill may also facilitate better integration of individuals in communities and societies with long-term benefits in terms of a more equitable and sustainable path of development.

Human capital has traditionally been measured in terms of proxies such as years of formal education completed. Yet, this operational definition of human capital has neglected the complex, versatile and heterogeneous nature of human learning which takes place throughout the course of a lifetime. Two important learning environments are the family and the workplace. Early childhood care and education is an important building block for healthy and well-rounded individuals who can participate effectively in society and the economy. Interventions to improve the quality of early childhood care as

well as policies to enable an effective combination of caring and working could represent important investments in present and future well-being and economic performance. The role of the voluntary sector in promoting learning and civic participation at all stages of life has been acknowledged as an important contributory factor to growth and well-being.

Increasing importance has been given by theorists and analysts to the role of learning within organisations and communities. The term learning organisation has come to express the notion of a collective group in which shared knowledge, team-work and norms of behaviour and interaction constitute a valuable source of organisational capacity and learning with clear benefits for organisational performance. Not only are there important "spill-over" benefits arising from higher skills and knowledge embodied in individuals (e.g. enhancing the productivity and social integration of others through indirect effects on the wider community) but there are important benefits from the effects of organisations and communities which "learn" to socialise knowledge and skills through more effective forms of interaction.

THE COMPLEMENTARITY BETWEEN HUMAN AND SOCIAL CAPITAL

Closely linked to the notion of organisational learning or capital is the concept of *social capital* which has gained currency among analysts in the present decade. Social capital, which refers to aspects of social life - the existence of networks, institutions, policies, norms and relationships - that enable people to act together, create synergies, and build partnerships. Coleman (1990), showed how social capital can influence the ability to acquire human capital, for example when strong communities enhance learning at school. Social capital sets also the context in which human capital can be developed and generally facilitates learning (although it may in perverse circumstances be a block to human capital investment). Human capital can help to produce social capital through preparing individuals to partake more effectively in various social groups and fostering civic awareness and the capacity to work and live productively with others. Cohesiveness, trust, solidarity are products of learning by individuals, in groups and between groups.

The concept of human capital investment borrows from an economic metaphor of investment in capital where investment involves a cost, a time dimension, a benefit flow and an asset value at any point in time. The concept is not so easily transferred to social capital. First, the definition of social capital is not clear since it exists in many forms and at different levels of society. Second, social capital is to some extent a given which is the result of a complex interaction of historical and cultural factors and not one in which investment or cost analogies can be easily applied. Third, the measurement of its impact on economic or social activity is arguably even more challenging than that of human capital.

Social capital, nevertheless, is a concept growing in importance amongst policy-advisors and researchers. Many see social capital as an important factor in explaining why some families provide better learning opportunities for their children. They stress the importance of different types of networks at the local, regional or organisational level in contributing to positive social and economic outcomes. However, as a public good, social capital like human capital, may risk under-investment due to market failure. Social capital incurs an opportunity cost in terms of time spent in networking and other activities implied by this concept - however, the private benefit of such activities may be less than the combined social effect (assuming that this is positive). It may be easier to approximate the level of social capital by measuring its absence as revealed in negative outcomes. So, for example, the absence of trust and social or civic co-operation may be reflected in various types of social behaviour and fragmentation which indicate its absence. Without sufficient social capital, human, physical and natural capital are much less effective.

As a vital link in the explanation of economic outcomes, the concept of social capital may be linked to that of social capabilities understood as embodying the entire set of social influences (including for example education, learning, government social policies and programs, rule of law, institutional efficiency, political stability, political freedoms, trust, networks etc). There is a range of social programs and policies which can contribute to the strengthening of social capital and more broadly social capabilities - namely those enabling participation in civic society, the labour market and early childhood development. Social programs can protect both the transitory and permanently vulnerable by providing a safety net and have a broader role than poverty prevention. They also help to bind economies and societies together by assisting individuals to achieve their potential.

The policy challenge is to better understand the linkages between human capital, social capability and growth. Which forms of human capital can best contribute to the high-quality social infrastructure that fosters productivity and growth? Likewise, which social initiatives can best lead to the high-quality human capital investment necessary for growth? Such understanding calls for a careful evaluation of policies across a wide range of domains to ensure that governments do not undermine the social capability in unforeseen ways.

PRESERVING SOCIAL CAPITAL FOR SUSTAINED ECONOMIC GROWTH AND DEVELOPMENT

What is of most interest to policy-advisors is the source and not just the outcomes of social capital - how networks of trust and knowledge creation and sharing can be fostered at the organisational, community and regional as well as between different sectors such as Government, higher education and business. Fukuyama argues that public authorities need to act to at least not make matters worse. However, other social capital enthusiasts argue that public authorities can actively nurture a stable, progressive and predictable environment in which it is possible for a vibrant civil society to emerge and flourish. From a public policy point of view, access to social capital (networking etc.) may have important equity implications since the effects of family, community and initial education may be to compound each other in widening social disparities. Some such as Robert Putnam (Putnam, 1996) claim that social capital has been decreasing over time in the US. However, the evidence is not clear-cut in the U.S. and even less so in other countries. While Putnam has shown that regional economic growth in Italy seems to be associated with social capital, it is not clear that social capital is identifiable or measurable at such aggregate cross-cultural levels as the region or national economy. Empirical work by Knack and Keefer (1997) does suggest some correlation between economic growth and social capital while controlling for other factors. Similarly, Temple and Johnson (1998) found that society matters most likely by influencing the quality of investment and the capacity to assimilate technology. However, much work remains to be done to clarify the nature of social capital as well as develop reliable proxy measures for social capital which can be used at an aggregate level.

REFERENCES

- Coleman, J. (1988) "Social Capital in the Creation of Human Capital", *American Journal of Sociology*, Vol 94 Supplement S95-120.
- Knack, S. and Keefer, P. (1997) "Does social capital have an economic payoff?" *Quarterly Journal of Economics*, Vol 112 no.4, pp.1251-1288;
- Putnam, R. (1996) 'Who Killed Civic America', *Prospect*, March, pp. 66-72.
- Temple, J. and Johnson, P.A. (1998) "Social Capability and Economic Growth", *Quarterly Journal of Economics*, Vol. 113, No.3, pp. 965-990.