

The Well-being of Nations

THE ROLE OF HUMAN
AND SOCIAL CAPITAL



The Well-being of Nations: The Role of Human and Social Capital

Executive Summary



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Introduction

Human capital is the familiar notion that knowledge and skills, derived from education, training and experience, represent some of our most valuable resources. The idea of social capital is less familiar, but recent research, resonating with commonsense, has highlighted the importance of established social relationships, norms of behaviour and mutual trust in many kinds of social and economic endeavour.

The forthcoming OECD report, *The Well-being of Nations: The Role of Human and Social Capital*:

- explores how human and social capital are related both to overall well-being and to economic growth;
- describes the notion of human capital and reviews the recent literature;
- describes the notion of social capital and reviews the empirical literature, particularly on the benefits of social capital;
- draws out some policy implications; and
- makes proposals for further work.

Our social objective is not simply to increase economic growth; it is also to improve well-being. Since the early 1980s, measures of well-being have lagged behind trends in per capita GDP in many OECD countries. While the reasons for this divergence are complex and not well understood, the significance of human and social capital is that they appear to support well-being directly. Human capital also contributes to growth, and there are some indications that social capital may do so as well.

Key findings on human capital

Human capital includes knowledge, skills and attributes such as perseverance. For individuals, investment in human capital provides an economic return, increasing both employment rates and earnings. This can be demonstrated either by looking at education levels, or at more direct measures of human capital such as numeracy and literacy scores.

In addition to the benefits captured by individuals, investment in human capital may yield benefits to the economy at large. The collective economic impact should, in principle, be identifiable in the rate of economic growth, but

The forthcoming report reviews the literature on human and social capital, draws out policy implications and makes proposals for further work.

Human and social capital contribute directly to well-being.

The individual benefits of human capital include increased earnings and employability.

Human capital contributes to economic growth...

in practice the impact has been difficult to confirm and quantify. Very recent OECD work has helped to clarify this, and has shown that, in OECD countries, one extra year of education leads, on average and in the long run, to an increase in output per capita of between 4 and 7 per cent.

... and seems to improve health, well-being and parenting.

Human capital also has a wide range of non-economic benefits. For example, education:

- tends to improve health (itself a form of human capital). An additional year of schooling has been estimated to reduce daily cigarette consumption by 1.6 for men and 1.1 for women;
- seems to make people happier;
- promotes the education of the next generation. Children of parents with upper secondary attainment are themselves more likely to complete upper secondary education; and
- is associated with higher civic participation, volunteering and charity giving, and a lower risk of criminal activity.

The labour market may be increasing its demand for “soft” skills.

There is some evidence that demand for human capital is changing. Changes in the organisation of work, often combined with more intensive use of ICT, seem to be increasing the requirement for “soft” skills such as teamwork, flexibility and communication skills. At the same time, demand for workers with only basic skills may be falling.

Key findings on social capital

Both social capital and formal institutional arrangements facilitate co-operation.

Social capital has been defined variously by different researchers, but is here taken to include the networks, norms, values and understandings that facilitate co-operation within or among groups. It is to be distinguished from the more formal political, institutional and legal arrangements which have a complementary role in this process.

Across OECD countries, social capital trends are mixed.

The level of social capital in societies, and individual access to such capital, is often measured through participation rates in different types of associational life, and self-reported levels of trust. Studies of this nature show a decline in social capital in the United States and Australia, but more mixed trends in other OECD countries. Explanations advanced for the US trend include a tendency for young people to be less civically engaged than older generations, and increased TV-watching reducing the time available for social interaction.

Like human capital, social capital also seems to improve health, well-being and parenting...

Research links social capital, and access to such capital, with:

- improved health – for example, one study shows that social connectedness is associated with a reduced risk of Alzheimer's disease;
- greater well-being according to self-reported survey measures;
- better care for children; for example, the social connectedness of mothers has been shown to reduce the risk of child abuse and social problems among children and teenagers;
- lower crime; neighbourhood trust is associated with lower crime rates;
- improved government – regions or states with higher levels of trust and engagement tend to have better-quality government.

Cross-country research has uncovered few links to date between social capital and growth, possibly reflecting the weakness of current proxy measures of social capital and the early stage of research on this subject. However, particular aspects of social capital appear to be positively linked to economic activity. For example, the evidence suggests that:

- social networks help people to find jobs;
- trust encourages more effective use of credit;
- co-operative attitudes within firms are linked to output and profitability; and
- regional clusters of innovative industries depend on local social networks to spread and share tacit knowledge.

... and some findings have suggested economic benefits.

Policy implications for human capital

Human capital is created in diverse contexts, in the family and home, in communities, in the workplace and in many other social settings. The arena for policy intervention is therefore wide. Against this background, the report draws out a number of policy implications and suggestions.

Investment in human capital takes place in diverse settings...

Expansion in post-compulsory education can now be shown to have contributed to economic growth in OECD countries. While this finding underpins the value of investment in post-compulsory education, the effectiveness of such investment rests heavily on the quality of compulsory school and indeed pre-school education. Further expansion in post-compulsory education needs to be supported by measures to address standards and the problem of poor performers in the compulsory system, and also to expand the provision of, and quality of, early childhood education and care.

... and its contribution to growth depends on the quality of provision throughout life.

Although the evidence remains somewhat uncertain, educational curricula and methods of teaching may need to give more weight to “soft” skills like teamwork, which could be in increasing demand. Where those skills are specific to particular organisational contexts, enterprise training needs to ensure that the skill requirements are addressed.

Curricula may need to be adapted to an increased requirement for “soft” skills like teamwork.

The organisation of learning opportunities throughout the lifecycle, and financial and tax incentives for learning, may need reform to better serve the needs of individual learners. There is a need to encourage, and rigorously evaluate, innovative forms of co-financing, such as individual learner accounts. Incentives for on-the-job training, part-time further education, alternation of work and study and use of distance and IT-based learning for adults might be considered. Such measures will need to tackle the difficult problem of motivating adults, particularly those with low educational attainments, to take part in education and training.

Incentives for continual learning need to be developed...

Some kinds of human capital – like teamwork and communication skills – act to support social capital, and investment in those skills will therefore represent a contribution to both types of capital. Extending this further, there is also a question about whether one should attempt to teach citizenship and democracy in formal educational settings. Attempts might also be made to use social capital to support human capital, for example by fostering more community support for local schools, given the evidence linking such support to results.

... and human capital investment can also support social capital.

Policies for social capital

Government has an indirect, but widespread influence on social capital formation.

Government does not have the kind of direct role in the creation of social capital that it has in respect of human capital through formal education and training. At the same time, the influence of government is widespread, covering most areas of domestic policy-making at local and national level. However, research on social capital is at an early stage – there is little available evidence about “what works” in the promotion of social capital.

Existing policy-making can take account of social capital.

Policies – for example on education, training, town planning, transport, the voluntary sector, family policy, crime prevention, and local government – are already affecting social capital. In pursuing policies in these areas, the aim should be to enhance and build on social capital, and to avoid those actions which might cause damage. For example, it could be recognised that, when services are delivered through volunteers, there is a social capital benefit, over and above the value of the service delivered. Demand-side measures could encourage funding of organisations which make effective use of volunteers, while supply-side measures could encourage employers to offer time off for some sorts of community activity.

Governments' own decision-making processes can help...

Governments' own decision-making processes, at national and local level, can either contribute to, or detract from, social capital. For example, consultation mechanisms which are effective in increasing civic engagement and reducing voter apathy, may generate some costs for government, but they should also confer social benefits. Government may also be able to do more to make its actions, and the reasons for them, transparent to people – perhaps partly by making government more accessible through new mechanisms like websites. If this is done well, with sensitivity to the local or national context, it should make government better understood, and perhaps promote social capital by increasing trust in government as well as promoting better government.

... as can policy on ICT.

ICT is creating new opportunities for people to come together – for example through email and net discussion groups – and for organisations to communicate with individuals through websites. At the same time ICT may be isolating its users from face-to-face contacts rather in the same way as TV, thereby reducing social capital. Some people, lacking either ICT access or skills, may also be left out of new ICT-based social networks and sources of information – the digital divide. Government cannot control this process, but it may be able to nudge it in the right direction, through its own policies on the use of, and access to, ICT.

Local health-care provision can reap the health benefits of social capital.

Health-care services, particularly at the community level, can be delivered in the context of some understanding of the health benefits of community links. This might, for example, encourage a form of service delivery which would allow sick or disabled people to stay closer to their families or communities, in the expectation that health outcomes and well-being might improve.

Equity and social exclusion

Equity and social exclusion needs to be considered in all policy contexts.

Given the strong role which human capital, and access to social capital, have in determining the life-chances of individuals, they will have an equally powerful impact on social exclusion and equity. All policies affecting human and social capital have implications for the distribution of these forms of capital between different

groups in society, and therefore for social exclusion and equity. It follows that the distributional implications will need to be fully considered, and weight given to them, when policies affecting human and social capital are under development. Such attention to equity and social exclusion within the framework of main programmes will often be more important than specific (often small) programmes whose primary purpose is to alleviate social exclusion.

Future research requirements

Measurement of competencies might be extended beyond the areas of numeracy and literacy into fields such as teamwork, problem-solving and ICT skills. While such competencies, or some dimensions of those competencies, may be dependent on cultural contexts, better measures will still be important, even where, for example, existing international survey instruments are inappropriate. Current development activities include continuing efforts to build on the *International Adult Literacy Survey* to cover a wider range of adult lifeskills.

Measures of human capital could be extended beyond numeracy and literacy...

We need a clearer understanding of how demand for human capital is changing and will continue to change, both quantitatively and qualitatively. This will be critical in guiding current initiatives both in training the knowledge workers needed for the “new” as well as the “old” economy, and in addressing the problems faced by those with few or outdated basic skills. Further work may be needed to integrate thinking about the changing demands for skills with the structure of school curricula and the balance between initial formal education and lifelong learning.

... and changes on the demand side assessed.

The concept of social capital remains somewhat fluid: further conceptual development, preferably linked to empirical work, is needed. This could involve developing our taxonomy of different forms of social capital, and identifying the fields of analysis and forms of social capital where application of the concept is likely to be most fruitful.

Further research could clarify the concept of social capital...

Better measures of social capital in social groups will be required, as well as, separately but linked, improved measures for individual access to social capital. Reported dispositions to trust or reported activities relating to informal socialisation, voting behaviour, joining in various types of organisations and volunteering provide important indicators of social capital. Progress will be needed in developing reliable cross-country measures for these indicators.

... develop better measures...

Given our limited knowledge, policy on social capital needs to be developed incrementally, and piloted and evaluated rigorously. This will support a growing understanding of “what works” in promoting social capital, and the contexts in which the promotion of social capital would yield most benefits.

... and identify the policies that work.

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