

# Social Cohesion and Macroeconomic Performance

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## 1. Introduction

There is increasing recognition that there is something called "social capital", "social cohesion", or "social capability", which affects the performance of nations. Some stress the importance of a "social compact" or "social contracts" among major groups - business, labour, government, and citizens [Reich, 1998]. Others see an explanation in the existence of strong interpersonal linkages through families, associations, and trust-building institutions [Putnam, 1993]

John Harriss and Paolo de Renzio [1997: 932] have identified the following typology for social capital:

- Family and kinship connections;
- Wider social networks, or "associational life" - networks of civic engagement;
- Cross-sectional linkages, or contacts spanning differences in sector or power;
- Political capital - the informal institutional arrangements for mediating conflict;
- Institutional and policy framework - the set of formal rules and norms (constitutions, laws, regulations, and policies) that regulate public life in society;
- Social norms and values.

Michael Woolcock [1998: 162] has broadened the notion of social capital by making a useful distinction between the macro and micro levels of "embeddedness" and "autonomy". Embeddedness implies that "... all forms of exchange are inherently embedded in social relationships [163]". At the same time, autonomous ties to other social entities are needed to coordinate outcomes.

"... Embeddedness at the micro level refers to intra-community ties, whereas at the macro level it refers to state-society relations; autonomy at the micro level refers to extra-community networks, while at the macro level it refers to institutional capacity and credibility" [164].

This study therefore takes a broad view of the idea of "social cohesion". Its objective is to gain some insights into where one might look for a connection between the social system and macroeconomic performance. At this stage of the literature, identification of such connections

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<sup>1</sup> Earlier versions of this paper were presented to the CSLS Conference on the State of Living Standards and the Quality of Life (October 30-31, 1998) and the Policy Research Committee's National Conference: Policy Research: Creating Linkages (October 1-2, 1998). Comments from participants were helpful. Subsequently, detailed criticisms from Brian MacLean and Lars Osberg were quite important in clarifying and focusing the paper. Residual problems are those of the author.

would be a helpful first step – the empirical studies that might allow quantification of the linkages are at an early stage of development.

If there are linkages from social cohesion to macroeconomic performance, the question immediately arises as to which dimensions of economic performance are most affected, and in what direction?

In principle, Social Cohesion might affect:

- o The productive potential of the economy – i.e., the potential output, at any point in time, and the production function relationship between outputs and inputs
- o The extent to which the economy falls short of potential – i.e., the output gap, at any point in time, between potential and actual output
- o The amount of economic surplus –i.e., discretionary income or surplus, reflecting the difference between total production and that required for some basic level of private and public goods and services
- o The Distribution of income (before and after transfers and taxes), of discretionary time, and of health across the population
- o The rate at which potential output grows over time. [ Other dimensions of dynamism are the pace of innovation, the speed of convergence of regions, the spread of new products and practices, the dissemination of information, and the confidence of the citizens in the future.]

The production function framework of Irma Adelman includes explicitly a vector of variables "...representing the entire social, cultural, and institutional complex of society." [Adelman 1961: 13]. Indeed, such socio-economic factors are seen to serve "... the role of prime movers in initiating economic development." [147] The implication is that evidence of an adverse impact of declining social cohesion would show up as a disappointing performance of Total Factor Productivity (TFP) in a production function that includes only labour and capital inputs.

Similarly, social cohesion can be considered as a possible explanatory variable in each of the other frameworks or areas. For example, the Lavis and Stoddard chapter in this volume examines the linkages between social cohesion and health outcomes, which may help to explain increases in health costs through declining social cohesion. Phipps' chapter discusses the impacts of social cohesion on child outcomes and Friesen's chapter presents an analysis of educational outcomes. In each case, the implication of declining levels of social cohesion is that society will get less desirable outcomes, even if there is the same level of expenditure on labour and capital inputs – i.e. total factor productivity will fall and potential output will decline. This paper examines the emergence of public interest in social cohesion in Section 2 before turning to the links between social cohesion and macroeconomic performance in Section 3. Section 4 considers a number of possible measures of social capital or cohesion for Canada and their trends over the last twenty years. Possible policy directions are covered in Section 5, with a brief conclusion in Section 6.

## 1.1 Social Contract or Compact

How are the relationships among people "worked out" in a society? Relationships between groupings of people may be along lines of "opinion" and subjective identity (ethnicity, religion, and colour) or on the basis of material opportunities (labour versus capital, nobility versus "Commoners"). Indeed, the modern pluralist society is likely to be some mixture of these factors - a segmented society with a class society. [Netherlands Scientific Council for Government Policy, 1997:17].

When thinking about large networks within a society and the nature of the relationships between them, the notion of a "social contract" or "social compact" can be a useful organizing framework, with a mix of explicit and implicit contracts **between** groups. Indeed, some would say that the social compact could define the society or culture.

In the Canadian context, the period from 1950 to 1975 had a number of reinforcing features. It was expected that successful companies would share benefits with workers by offering security of employment and a wage structure that increased with productivity gains. Firms recognized the need for stakeholder involvement and benefit and governments provided a framework of Social Insurance through Unemployment Insurance, with broad coverage, social security and social assistance. The output necessary to support these programmes was there because the state accepted a responsibility to maintain low unemployment and used low interest rates to that end while the productivity of the economy was maintained by the expenditures necessary to ensure a healthy and well-educated population. Conflict was minimized by explicit attention to regional redistribution and co-operation with the provinces. Voluntary associations were nurtured and there was an attempt to build consensus organizations like the Economic Council of Canada.

The New State (1980 -??) has seen a corporate emphasis on downsizing, declining real wages, loss of benefits, anti-union activities, contingent work, polarisation of wages and an emphasis on increasing shareholder value only. Government cutbacks have affected all parts of the social insurance package, particularly EI, with a lower percentage qualifying and receiving lower benefits. In old age security there has been an increase in premiums, and a clawback of OAS. The CHST era has seen both provincial cutbacks and workfare on the social assistance side and reductions in the health care system. Rising tuition has undermined accessibility of higher education. Federal-provincial relations have been marked by the abandonment of regional development as an objective and downloading on provinces. The government sector has been offloading on voluntary associations and eliminating or ignoring consensus inputs. The fundamental framework has been a focus on low inflation to protect asset holders, achieved by maintaining a high unemployment rate through high real interest rates.

The general label for this transformation has been the "Conservative Revolution" [Allen and Rosenbluth, 1992: 6ff.], although with the more recent application of more of the same policies, it now can be described as the "neo-liberal paradigm".

## 2. Why is there an Emerging Interest in Social Capital/Cohesion?

Efforts to reduce social spending are leading to dissatisfaction with governments, loss of confidence in institutions, and the emergence of a "meaner" society. At the same time, economic performance is less than expected, as productivity gains are weak, investment intentions poor, and demand soft. Some explanations focus on the impacts of new technologies on employment; others see "globalisation" as the source of difficulties.

Are we in a downward spiral, with economic shocks destroying social cohesion, which, in turn, is reducing productivity and increasing social tensions with subsequent costs to the economy and governments?

Is it possible to reverse the spiral, and to turn it into a self-reinforcing positive virtuous circle, with rising incomes, improved social cohesion, and an improved longer-term dynamic in the society?

The link between social capital/cohesion and economic growth has been discussed by many in recent years. The breakdown in the "social compact" in the United States has been analyzed by Robert Reich [1998], with a strong urging for corrective actions. Robert Putnam [1993, 1995, 1996] has stirred up interest in the concept of social capital through several of his articles. Francis Fukuyama [1995] has stressed the role of trust in explaining the varying fortunes of countries.

In official circles, the Dutch government's scientific advisory group has examined the concerns about a growing social dichotomy between those who are working and not working, and those with skills and those without [Netherlands Scientific Council for Government Policy, 1997]]. In New Zealand, efforts are underway to examine the ways in which social cohesion can be improved through the Foresight Project. In their terms, "If social cohesion describes a society where different groups and institutions bind together effectively despite differences, then social capital must be part of the glue which enables this outcome." [Blakeley, 1997] The World Bank has created a web site, focused on social capital<sup>2</sup>, with growing traffic from both developed and developing countries. The OECD and some member countries are discussing the concept of social capital [OECD 1998]. In Canada, the Policy Research Secretariat has identified it as one of the key areas for cross-departmental analysis [PRS, 1996].

Social cohesion or a social compact is thought by all these authors to be an important determinant for the future evolution of the economy and society. There is also a strong suspicion that we have somehow damaged that cohesion in the past, with a set of actions (and inactions) since the mid-1970s. But we are still left with little clarity about the mechanisms at work and how to fix the damage.

This study will therefore focus on the links between social cohesion and macroeconomic performance, the evidence of deterioration in Canada, and the empirical work that can be drawn on to suggest the possible payoffs from directing more attention to Canada's social fabric.

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<sup>2</sup> <http://www.worldbank.org/poverty/scapital>

### 3. Social Cohesion Links to Macroeconomic Performance

Better economic performance improves social cohesion, particularly if gains are shared among the economic partners and social programs help fill in the gaps by providing trampolines for those who need assistance to regain their place in the social structure. As well we have seen the corrosive effects on social cohesion because of cutbacks in social programs and reduced economic gains provided to employees by employers.

One view of social cohesion is as a fringe benefit or "luxury" of a well-performing economy. This perspective argues it is subject to cutbacks in tough economic times but suggests there are no long-term consequences of sacrificing social cohesion [Stanley, 1997: 5]. However, there is growing evidence that there is a strong causal linkage **from** social cohesion **to** macroeconomic performance. The new view is that "... growth is affected by public goods, finance, demographic parameters, income distribution, and social norms, all of which are grist for the social cohesion mill" [Stanley, 1995: 5].

#### 3.1 Knack and Keefer

Stephen Knack and Philip Keefer [1997, 1252 ff.] identify a number of possible channels through which an improvement in social cohesion (social capital) can impact macroeconomic performance, directly and indirectly. These include:

- o **Reduced transaction costs** - trust between organisations and people allows transactions to take place with high confidence that payments will be made, goods shipped, etc. Without such trust, payments are made in advance, shipments only occur after cheques have cleared, contract and litigation costs are higher, bribes are necessary, etc. As well, some desirable transactions do not happen at all, because of the added cost and uncertainty introduced by a lack of trust.
- o **Higher investment ratio** - an increase in the investment ratio because of greater trust and more credible policies can influence the long-term growth prospects of the nation by raising the rate of productivity growth. This works both through a higher capital-labour ratio and through a direct effect on total factor productivity [Scott, 1989: 285 ff.].
- o **Encouragement of innovation** - more entrepreneurial time available for innovation, less needed for close supervision of employees, partners, and suppliers.
- o **Better performance of government institutions**, including education, provision of public goods, and better public policy; higher quality schools - more investment in human capital; credibility of government allows more effective policy application.
- o **Lower social costs** - Lower health costs, lower police costs, and other social costs result in lower taxes or user fees, and fewer private resources to manage risks. Reductions in absenteeism and sickness improve productivity.
- o **More informed citizenry** and accountable politicians and bureaucrats.

All of these channels (and more) represent an expanded view of the determinants of growth beyond the simple model of labour, capital, and exogenous technical progress. These influences can reduce the costs and risks of investing, a pro-growth outcome.

The measure of trust (TRUST) used by Knack and Keefer [1997:1256] is the percentage of positive responses, relative to the total of positive and negative responses, to the question in the World Values Survey for 1981,

"Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?"

In a similar vein, the strength of norms of civic co-operation (CIVIC) are calculated from responses to a suite of questions about the justification of certain behaviours:

- o Claiming government benefits, which you are not, entitled to
- o Avoiding a fare on public transport
- o Cheating on taxes if you have a chance
- o Keeping money that you have found
- o Failing to report damage you've done accidentally to a parked vehicle

In the Knack and Keefer equations [1997: 1260 ff.] explaining growth across countries for the period 1980-92, variables are added for TRUST and CIVIC to an equation with the level of output in 1980, school enrolment rates in 1960, and investment goods prices relative to US prices. Note that the explanatory measures are usually for points in time **before** the period for growth under examination, thereby avoiding problems of simultaneity and testing the causality flow.

A 10 percentage point increase in TRUST increases the growth rate by 0.8%; a four-point rise in the 50-point CIVIC scale would raise growth by 1 percentage point. The TRUST and CIVIC measures for several countries in 1981 are tabulated in Table 3.1 from Knack and Keefer [1997: 1285].

**Table 3.1 Trust and Civic Measures by Country**

<b>Country</b>	<b>TRUST</b>	<b>CIVIC</b>
Norway	61.2	40.75
Sweden	57.1	41.57
Canada	49.6	39.74
US	45.4	40.55
UK	44.4	40.07
Germany	29.8	39.83
France	24.8	36.26

An increase of 0.5% per year in economic growth will mean 5.1% more GDP in 10 years, 10.5% more in 20 years, and 65% more in 100 years. But can we expect as much as 0.5% per year from improved social cohesion? Or has the decline in the past been that much or more?

If one believes the Knack and Keefer results, a movement in Canada from the 1981 levels of TRUST to those of Norway or Sweden would provide more than enough of a change to yield an increase of 0.5% in economic growth or \$80 billion in twenty years. How to make such a move? From a policy perspective, the challenge is to link actions of governments to changes in trust and civic co-operation.<sup>3</sup>

### 3.2 Social Capability and Economic Growth

Another provocative study [Temple and Johnson, 1998] has linked "social capability" to economic growth, with social capability defined as "...the attributes and qualities of people and organisations that influence the responses of people to economic opportunity, yet originate in social and political institutions." [1998: 966] The authors go back to the work of Adelman and Morris [1967] in which they studied the interaction of economic and non-economic forces in the course of development. They note that having the information contained in the social development index (SOCDEV) developed from data over the period 1957-62, would have been a significant explanatory variable for the cross-country differences in economic growth from 1960 through 1985.

One variable, COMMS, which measures the extent of mass communications (daily newspaper circulation per capita and radios per capita), is particularly important in explaining total factor productivity (TFP) growth. A one standard deviation change in COMMS is associated with a one-percentage point increase in the TFP growth rate [Temple and Johnson, 1998: 980]. COMMS is highly correlated with TRUST, as measured by Knack and Keefer. In particular, newspaper circulation per capita is highly correlated with the TRUST variable.

Temple and Johnson [1998: 987] note that "... society is important beyond its role in determining the fertility rate and the extent of investments in physical and human capital. It may be that society matters because it influences the quality of investment, the level of overall technical efficiency, or the ability of countries to assimilate technology from abroad. ... an assessment of mass communications, given the absence of other good measures, is probably the best way to capture variation in social capital across developing countries."

### 3.3 The Role of Income Distribution

[Osberg, 1995] notes in reviewing the recent literature on endogenous growth that those countries with greater equality in incomes grow faster. How is this to be explained? One channel is through differing levels of human capital, with more equality of incomes encouraging higher levels of human capital formation. [Robison and Siles, 1997: 7-11] argue that social capital allows the realisation of gains from transactions between individuals through the internalisation of externalities. These gains show up as higher incomes and less income disparity. In this framework, it is the increased social capital that leads to or causes less income disparity as well

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<sup>3</sup> As well, the World Values Survey is conducted infrequently, with some doubt about its comparability over time [Helliwell, 1998: 16]. This suggests that TRUST may not be the "performance indicator" for evaluating government actions.

as higher income. The measures used to proxy social capital [Robison and Siles, 1997: 20-23] include:

- o Family integrity (percentage of single-family households with children under 18, birth rates of single teens, infant mortality rates),
- o Educational achievements (high school graduation rates and teens not in school),
- Crime (litigation rates and violent death rates for teens),
- o Labour force participation rates and childhood poverty rates, and
- o Transfer payments for health purposes.

Stiglitz and Furman [1998] examine the linkages between income inequality and economic growth, through four possible channels: saving rate differentials, agency costs, fiscal policy, and political instability. Their net conclusion is that "inequality is neither necessary for growth nor is it an inevitable consequence of growth." [Weiner and Montom, 1998: 6]

Richard Wilkinson suggests that social cohesion may also increase with a more equal distribution of income, as well as contributing to it. He concludes, "So however cohesive societies are formed, a narrow distribution of income is a necessary condition for their survival and is likely to serve as a marker for important characteristics of the social fabric." [Wilkinson, 1996: 135]

### **3.4 Social Institutions**

Ritzen, Easterly, and Woolcock [2000: 6] define social cohesion as "... a state of affairs in which a group of people (delineated by a geographical region, like a country) demonstrate an aptitude for collaboration that produces a climate for change." They go on to say. "... that societies with a larger share for the middle class and more linguistic homogeneity have more social cohesion and thus better institutions, and that these better institutions lead in turn to higher growth." [21]

Social institutions are both a reflection of the level of social cohesion in the society that produced them and an important influence on future levels of social cohesion. In the 1960s, a number of institutions were developed that focused Canadians' attention on longer-term issues. The Economic Council of Canada, for example, emphasized economic goals and policy recommendations based on a consensus of major stakeholders. The Science Council of Canada also undertook to develop a strategy for science policy in a number of areas.

The Economic Council provided a place for Canadian leaders from the private sector (business, labour, agriculture, etc.) to become informed about the key challenges facing Canada, to identify goals for the economy, and to review studies and make recommendations to various partners in society. The process of discussion and consensus building was aimed at developing a common perception of the constraints facing the Canadian economy and at building links between the leaders of major sectors. It worked well until 1975. The frictions around the introduction of wage-price controls in 1975 –which were introduced without consultation - led to some labour members resigning. It then became a research organisation, although still maintaining a consensus process among the remaining members.

The Economic Council provided a venue for medium term research that was not under the direct control of the government of the day, but which tried to influence the perceived framework for

policy alternatives. As a result, it came under increasing pressure in the 1980s, and was finally eliminated by the federal government in 1991. In the case of the Economic Council, this silenced potential criticism of the federal government's strategy of mass unemployment as an inflation control device. The willingness of the federal government to tolerate high unemployment has been very costly in lost production, and has created a negative feedback loop by lowering social cohesion and lowering productivity growth, resulting in an even worse inflation/unemployment menu in subsequent years..

Social cohesion (or the lack of it) depends on the history of social and political relationships. In Canada, that history includes a period in which consensus-building institutions were seen as important. Is it possible to re-create some of these institutions? How else might trust in governments be restored?

#### **4. Measures of Canada's Social Cohesion**

Although we talk about the decline in social cohesion or social capital, what evidence is there that there has been any such decline? When did it start? Has it been continuous? Where do we look for such evidence?

Time use diaries indicate that most people actually spend a very small part of their day in civic or voluntary activities [Frederick, 1992]. Paid work (for those employed full time) is the dominant networking or socializing activity outside the family. Exclusion from paid employment is therefore likely to be an important determinant of social capital.

During the period from 1975 on unemployment in Canada has been drifting upwards, with several cycles. Productivity growth has slowed compared to the early post-war period. Real disposable income per household has stagnated since the early 1980s. The distribution of income has worsened. Table 4.1 below summarizes a number of social cohesion indicators, and their trends from 1975-1995. The message is clear. By any measure there has been deterioration from the mid-70s on, with little evidence of a reversal in recent years.

Table 4.1

Measure	Cyclical?	Change1975-95	Notes
Employment Ratio <sup>4</sup>	Yes	43% to 38% for Full-time	
Full-time Youth Employment Ratio	Yes, plus trend	43% to 28%	
Bureaucratic Burden <sup>5</sup>	No	7% to 14%	Inverted measure
% Of employed with desired employment status	No	10 point drop for females, 3 point drop for males	
Unemployed over 6 months	Yes	16% to 32% of total unemployment	Inverted measure
Welfare share of population	No	5% to 9%	Inverted measure
Marriages per 1000 population <sup>6</sup>	No	8.2 to 5.2	
Daily Newspaper Circulation <sup>7</sup>	No	0.28 to 0.22	Per person (age 15+)
Voter Turnout, Federal Elections	No	77% in 1972 to 67% in 1997	
Lawyers per 1000 population <sup>8</sup>	No	1.7 in 1985 to 2.2 in 1996	Inverted measure
% Of people living in a family	No	89% in 1976 to 83% in 1997	
Unattached living with others	No	40% in 1976 to 28% in 1997	

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<sup>4</sup> Fortin, 1996

<sup>5</sup> Managerial & Admin Share of Total Employment, Gordon, 1996: 42 ff.

<sup>6</sup> Pullinger, 1998: p.8

<sup>7</sup> Temple & Johnson, 1998: 977

<sup>8</sup> Knack & Keefer, 1997: 1262

## 5. What Could or Should be Done?

As the previous section has noted, poor economic performance has coincided with a period in which a number of indicators of social capital, social cohesion, or social capability also seem to have deteriorated. . The thrust of much recent economic policy has been to exclude individuals from socially valuable networks. At the same time, consensus-building institutions have been eliminated. This correlation is not accidental, and declining social cohesion could be contributing to the worsened economic performance.

But can governments do anything to improve social capital? Is there any real will to do so? Some recent observations on the issue include:

"Social capital ... can be dissipated by the actions of governments much more readily than those governments can build it up again." Francis Fukuyama [1995: 362]

"The social compact is a promise we made to one another, and we are not keeping it when we can most afford to." Robert Reich [1998: 17]

Doing something about social cohesion and social capital is increasingly seen as a proper responsibility of government. However, some commentators go much further and argue social capital is an "antidote" to poor governments, or even a substitute. As Alejandro Portes and Patricia Landolt [1996: 21] point out, the term social capital has sometimes been stretched and distorted in meaning. [For example, the call for more social capital is a misdiagnosis of the problems of inner cities. More economic resources are needed, not more social capital.] Nevertheless, it is still useful to ask what Canada can do to rebuild social cohesion.

### 5.1 OECD Position

The OECD has produced a number of studies on social programs, with a link to the fiscal difficulties of the member countries. They try to sell the view that fiscal restraint is a necessary condition for policies to promote social protection and well-being [OECD, 1997: 10] They seem surprised, however, that the "...economic strategy of prudent macroeconomic policy, including fiscal consolidation, structural reform and market liberalisation" has resulted in "...witnessing in some OECD countries signs of social unrest and protest movements as well as popularity ratings for many governments and a 'feel bad' factor which may reflect a lack of confidence in these policies." [OECD, 1997: 9]

Although there are many good intentions spelled out, one is left with the feeling that the OECD governments are not prepared to change their fiscal strategy at all, leaving little hope for much co-ordinated progress among the OECD countries. This suggests that we had better focus our attention on what we can do in Canada, rather than waiting for the OECD to provide guidance. This is especially the case if the OECD position represents a lagged consensus of the member countries, with particularly strong influences from the Finance officials in each country.

### 5.2 Improved Institutions

At one time (1964-1975), Canada was well served by an institution that brought together the various private sector interests (business, labour, associations, education, etc.), defined the economic goals of the society and the medium-term policies to approach them. This served as a framework for the social compact and provided some coherence to governments in their

programs. The withdrawal of labour in 1975 changed the Economic Council into a research institution, and reduced its role as a bridging institution. The subsequent elimination of the Economic Council (and the Science Council) in 1991 has left no bridging vehicle for discussion of economic goals, independent from the political documents of the government of the day. Nor are there as many objective economic studies to be referred to in the policy discussions among NGOs and governments. The decision to close the Economic Council had more to do with silencing public debate than showing some "fiscal prudence", particularly in light of the subsequent draconian fiscal and monetary policies that produced the longest recession in post-war experience (to date).

### **5.2.1. Economic and Social Council**

A new institution should be developed along the lines of the Netherlands Economic and Social Council. It should be a consensus-forming organisation with representatives from:

- o Labour
- o Large business
- o Small business
- o Provincial governments
- o Federal government
- o NGOs (public interest)

Supporting staff should include sociologists, economists, and such other disciplines as necessary to ensure a broad-based, trans-disciplinary approach to the study of issues and policies.

One interesting feature of the Dutch model is the requirement for the Deputy Minister of Finance and Governor of the Netherlands Central Bank to attend meetings, along with various social policy departments. This ensures a full understanding among all parties of the macroeconomic context within which social and structural policies are pursued.

### **5.2.2. Science and Environmental Council**

Society is also concerned about science, technology, the environment, and regulation of technological change. This institution would be a useful "re-birth" of the Science Council of Canada. Its mandate should include an open approach to the discussion of science matters, including both an educational element and the promotion of expert discussion on the key issues of biotechnology, climate change, health, genetics, etc.

## **5.3 Improved Fiscal and Monetary Policy**

There is little doubt that a move to stimulative fiscal policy and monetary policy could reduce the output gap, lower unemployment, improve the distribution of income, and improve the confidence of Canadians in the economy and governments. As part of such a package, reform of wage bargaining and incomes policies are an integral part. There is a need for institutions to develop a consensus about an appropriate nominal wage rate. Layard, Nickell, and Jackman [1994: 98] suggest three important elements:

1. An informed national debate about what rate makes sense;
2. Reports by respected and trusted bodies such as councils of economic advisers and research institutes;
3. National talks between employers and unions.

The Scandinavians have achieved a better inflation/unemployment relationship due to corporatist central bargaining on wage levels. The alternative strategy of mass unemployment as an inflation control device is very costly in production terms, and also creates a negative feedback loop in lower future social cohesion, lower productivity growth and an even worse future inflation/unemployment menu.

In Canada, with much of organised labour operating at the provincial level, there is an additional challenge of achieving consensus. But the alternative, as witnessed by several decades of substandard performance, should be a strong motivator.

## **6. Why Bother?**

### **What is the impact of increasing economic growth by 0.5% per year?**

Although this sounds quite modest, over a ten-year period this would mean a five percent larger economy; over twenty years more than a ten percent gain. Conveniently, this is enough to close the output gap that has opened up from the early 1970s, which has also produced much higher unemployment rates than necessary and wasted public and private resources in the process.

If routed to real disposable income, faster growth would turn around the declining real disposable income per household that has characterised the period from 1990 on (in 1997, average incomes were below the 1981 level by about six per cent). If focused on families with children, the poverty gap of about 0.75% of GDP could be eliminated in less than two years, ending child poverty.

### **What are the advantages of a society in which all persons feel included?**

For those “outside” the gain is obvious. But those currently “inside” also have more security of person and property, the benefits of a larger functioning society, and less need for redistribution of income, given full access to all.

### **What is the importance of demonstrating to the world that there is a more sensible model of social and economic improvement?**

By developing a society in which improvements in social cohesion and economic prosperity go hand in hand we can provide a working example for the rest of the world. This will help to create some sense of hope for the poorest 5 billion whose needs are very immediate, but who also need some hope for a more humane future.

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