The Role of Social Capital in Fostering National Prosperity

Firstly, may I say thank you very much for having me here. It's a pleasure to be with you for the CIIF 10th Anniversary Forum.

Thank you very much Mr Secretary Cheung. Thank you Mr Chairman (KS) of the Community Investment and Inclusion Fund.

I have already had the pleasure of attending one of the excellent projects sponsored by the fund. Yesterday morning I visited the "Splendid Fashion" Project which was superb. The project itself was very impressive and it was very insightful to experience some of the work that CIIF do in fostering social capital in Hong Kong.

So a BIG thank you to everyone involved in this event and in CIIF for your hospitality.

Before I get into the main subject of my talk today, a few words of introduction.

I'm Nathan Gamester and I a work for the Legatum Institute where I am the Programme Director for the Legatum Prosperity Index™.

The Legatum Institute is a public policy organisation – or think tank if you will – based in London. Our mission is to build a more prosperous world through a combination of liberty and responsibility. Our research is focussed around two main areas: Global Transitions and Prosperity

Studies. Our signature publication is the annual Prosperity Index, which I will talk about in more detail in just a moment. One of the areas that is measured in the Prosperity Index is social capital, which is primarily what I will focus my remarks on this morning.

Social Capital is an interesting subject not least because as a concept, it is not easily defined let alone measured. In fact, much of the scholarship and discussion concerning social capital includes words such as “intangible” and “informal” among others. After reading such words it is tempting to believe that social capital is a concept so fluid in nature that it transcends our ability to understand let alone capture it in any meaningful way.

But for those of us who work in the field of social capital, our challenge is to do precisely this. To capture, to understand, to measure, and even to influence social capital.

But before we get to any of that, let us first consider the fundamentals of social capital. Namely, what exactly is social capital? How can it be measured? And how can we increase levels of social capital in society?

I will split my comments today into three sections: firstly I will define the term “social capital”. Secondly, I will explain how social capital is used in fostering national prosperity. Thirdly, I will examine levels of social capital in Hong Kong.

1) What is Social Capital?

Finding a definition is not as easy as it sounds.

In preparation for this talk, my colleagues and I set out to find a definition of social capital. This, we thought, would be a relatively straightforward exercise considering how frequently the term is used in many scholarly debates and academic literature.

We quickly discovered, however, that despite the term "Social Capital" being used frequently, there does not exist a single agreed definition of what it is.

We found, for example, Francis Fukuyama's definition of the term from his 1997 paper in which he describes it as "*…the existence of a certain set of informal rules or norms shared among members of a group that permits cooperation among them…*" Fukuyama goes on to explain that these norms, "*…include virtues like truth-telling and reciprocity*."

Another definition we found was from Harvard Professor Robert Putnam who, in his influential book Bowling Alone defines social capital as *"…connections among individuals – social networks and norms of reciprocity and trustworthiness that arise from them*."

We found also Joel Sobel's 2002 paper in the Journal of Academic Literature in which he describes social capital as "*circumstances in which individuals can use membership in groups and networks to secure benefits*."

In fact, we found at least 14 separate definitions and explanations of what social capital is. In these, some common themes emerged.

One of the big themes we observe is trust. Trust or trustworthy behaviour is deemed to be closely connected to social capital – either as a cause or an effect of it. Or perhaps both.

Another theme we observed is the importance of networks and associations. The idea of making strong connections within society as well as within the family is important. In fact, Robert Putnam has also described social capital as a "*set of horizontal associations between people*", which is of course a direct reference to the need for connectedness. Reciprocity is another theme frequently observed in the literature.

And within all of these definitions, the overarching theme is that these factors – or "ingredients"– for social capital come together in such a way so as to benefit a society or a people group. And this benefit is a tangible entity to the extent that the group or society would be manifestly worse-off if those factors were not present.

And so, having considered the many competing definitions of social capital, we faced a choice. Should we adopt an existing definition? Should we merge several to create a hybrid? Or should we create our own definition?

At this point, you may well ask why there is a need for a clear definition? Most of the existing definitions share similar characteristics, so why the need to clarify? The need for a definition was argued by Alejandro Portes in his influential 1997 paper on the subject in which he notes, "*the point is approaching at which social capital comes to be applied to so many events and in so many different contexts as to lose any distinct meaning*".

Another reason why a clear definition is needed is because we are in the business of measuring social capital. It's one of the key components of our Index and so establishing a definition is a pre-requisite for actually measuring Social Capital.

With this in mind, we decided to create our own definition of Social Capital. We found that none of the existing definitions were quite right – none of them fully captured the essence of social capital.

And so, we decided on the following:

Social Capital is the accumulation of benefits accrued by a society whose citizenry is interconnected, trusting, and who engage in altruistic/charitable behaviour.

To break that down, we define Social Capital as the benefits that a society receives, that are accrued by certain types of behaviour and activities. We have based this definition both on academic theory on social capital as well as our own Social Capital sub-index that is used in the Legatum Prosperity Index™.

For our own purposes, one of the crucial requirements of this definition is that social capital is measurable. In our Prosperity Index we provide global rankings of Social Capital based on factors such as trust, human networks, and altruism. We measure social capital in order to better understand how it is formed and to observe year-on-year changes.

This brings me on to the second part of my talk: what is the role of social capital in fostering national prosperity?

[2) Social Capital’s role in fostering national prosperity,]

In order to answer that question it is first necessary to understand a little bit about the Prosperity Index.

Simply put, the Prosperity Index exists because we believe that national success is about more than just wealth.

The Prosperity Index combines measures of wealth *and wellbeing* to provide a unique snapshot of global prosperity. This means that it combines both objective measurements as well as subjective survey-based measurements to provide a more complete picture of global prosperity than any other tool of its kind.

Now in its sixth year, the Index assesses 142 countries, representing more than 96% of the world’s population and 99% of the world’s GDP. Using rigorous research and analysis, the Index ranks countries based on their performance in eight sub-categories.

These are the Economy; Entrepreneurship & Opportunity; Governance; Education; Health; Safety & Security; Personal Freedom; and of course, Social Capital.

This comprehensive view of prosperity allows us to paint a more complete picture of the world than we can by using traditional economic metrics alone. For example, Saudi Arabia has a strong Economy but low Personal Freedom, so it does not rank highly in the overall prosperity ranking.

Overall, across the eight sub-categories, we measure 89 separate factors. These are each selected because the academic literature has shown that they have an effect on either income levels or citizen wellbeing, or in some cases, both. None of the variables in the Index are selected through random or arbitrary choices by us – they are all rooted in the academic literature.

And so, once we have calculated the 2012 Index, what do the findings tell us? I'll talk now through some of the main findings from the Index after which I will speak in more detail about some of the findings specific to Hong Kong.

Rankings Top 30. The colour code is as follows: top 30 countries are coloured green. Bottom 30 countries are coloured red. And the middle ranking countries are split: upper middle is yellow. Lower middle is orange.

As you can see from the table, most of the top countries perform well across each of the eight categories. A few middle ranks – yellow – do creep in but for the most part, top performing countries do well in all categories.

A few notable rankings include the US which falls outside of the top 10 for the first time. The UK is just behind in 13th. And Hong Kong ranks 18th this year.

Bottom 30. While the top of the table showed mainly green ranks, the bottom 30 rankings are more widely distributed. We see many more middle ranks creeping into the picture. In fact, only 4 countries rank in the bottom 30 across each of the eight sub-categories.

Many of the countries that make up the bottom 30 are from the sub-Saharan African region as well as countries such as Afghanistan and Haiti.

Beyond the rankings there are a number of key findings in the 2012 Prosperity Index all of which are available in the reports and on our website Prosperity.com. I won't mention them all now; just a few that may be of most interest.

Key Findings

1) Global Prosperity is Increasing. Despite the most severe financial crisis in modern times, despite citizen uprisings that have toppled some of the world's most autocratic regimes, despite protests and riots that have erupted around the world, global prosperity has increased across all regions of the world over the last four years.

2) But Safety and Security is Decreasing. When we look at each of the eight sub categories we see that they have all increased over the last four

years except Safety & Security. This has been driven by Arab Spring countries that have experienced upset in recent months and years and by Latin American countries that are facing real challenges with high crime levels and low levels of citizen safety.

<u>3) Asian Economies Performing Well.</u> Looking at our Economy sub-index, we see that six of the top 15 countries are from Asia. Hong Kong, Singapore, and Taiwan all rank in the top ten for the Economy with China, Japan, and Malaysia not far behind.

<u>4) The Rise of the Asian Tiger Cubs.</u> The Index reveals four “up and coming” countries in the Asia region. These are Vietnam, Thailand, Indonesia, and Malaysia each of whom are the rising countries nipping at the heels of their regional leaders. In fact, Indonesia is the fastest rising country in the whole Index over the past four years.

Further details on all of these findings as well as others are available on our website and in the report.

And so these are just a few of the Big Picture, global findings from the 2012 Index. But we are also able to examine regional trends as well as specific country findings. And so how does Hong Kong fare in the 2012 Prosperity Index?

As you can see, Hong Kong ranks 18th overall this year. That is an increase of two places since last year. The biggest improvements were seen in the Safety & Security sub-index where Hong Kong increased by 13 places since last year. The next most improved area is Health, where Hong Kong has improved by 5 places since last year.

And then you will also see, over in the right hand column, that Hong Kong ranks 25th in our Social Capital sub-index. And this brings me to my final point:

3) Social Capital in Hong Kong

Hong Kong's ranking of 25th in the Social Capital sub-index is a small decrease of three places since last year. This is just behind Taiwan – 24th – and Japan – 20th – but is ahead of Singapore – 39th and China – 29th.

The factors that are measured in this category are trust, social support, volunteering, giving to charity, helping strangers, marriage rates, and religious attendance.

I'll now briefly look through a number of these and discuss how Hong Kong performs on such measures this year as well as in comparison to previous years.

Starting with trust, we see that 30% of citizens in Hong Kong say that they can trust others, which is higher than the global average of 24%. When we compare regionally, however, Singapore and Japan record slightly higher levels of trust – 33% and 34%, respectively.

64% of citizens of Hong Kong report to donating money to charity. This is more than double the global average of 30% but this has decreased since last year, when it stood at 73%. This downward trend is a global phenomenon which we can fairly safely put down to an effect of the financial crisis. When it comes to charitable donations, Hong Kong ranks 13th in the world.

Another factor considered in the Social Capital category is the willingness of citizens to help strangers. Here, again, Hong Kong does well with 56% of the population reporting to having helped a stranger in the last month. This is above the global average of 46% and also above Singapore, Japan, and China, all of whom rank within the bottom ten, globally, on this measure.

We also see that 85% of people in Hong Kong say that they can rely on family and friends in times of need, which is just above the global average.

One of the measures within the Social Capital sub-index in which Hong Kong does not perform so well is in the area that measures religious attendance. Before I talk about the specific scores here, it's worth explaining why this measure is included.

This is not an assessment of the religiosity of a country or the extent to which citizens believe in God. Instead, this is a measure of social networks.

This measure of religion and networks is an area of study explored by Robert Putnam in his 2001 book Bowling Alone and the theme was built upon in his 2010 book American Grace. In the later book, Putnam studies the types of friendships and networks that exist in churches. These networks can create links between people that Putnam describes as “supercharged friends”. And so, by measuring religious attendance, what we are really looking at is the opportunities that citizens have to develop “supercharged” friendships.

In Hong Kong we see that 19% of the population report to having attended a place of worship or a religious service in the past seven days. This is below the global average of 46% and ranks Hong Kong very low, globally on this variable.

It’s worth mentioning that some of the benefits of this can be captured in other ways, through memberships of other groups and associations, not just through attending church. In fact, much of the group-based activities we see displayed today will be fostering the types friendships that increase social capital. Unfortunately, from my point of view, there is not much global data around to capture that type of behaviour.

So that’s a brief snapshot of social capital in Hong Kong. There is more that could be said and a lot more data that could be analysed. All of the data we use in the Prosperity Index is available on our website so please do go there and take a look. You can play around with the data to generate charts and graphs. And we also publish our full methodology for those who are interested.

I would like to conclude by quoting two distinguished but very different academics: Josef Stiglitz (the Nobel Prize-winning economist) and Albert

Einstein. These two quotes succinctly explain two conflicting – and yet vital – factors we encounter in measuring social capital, and indeed national prosperity.

Josef Stglitz, who led the now famous Sarkozy Commission looking at wellbeing said this: "***What you measure affects what you do. If we have the wrong metrics, we will strive for the wrong things***."

And this is exactly why we must continue to strive for the right measurements of Social Capital because not only will they allow us to track our progress and our development but the simple act of measuring can itself change behaviours and outcomes.

And in the process of doing this, we must also recognise that there will always be limitations and constraints, particularly with regard to the data that is available to us. Sometimes that thing that we desperately want to measure may well be beyond our grasp.

Or as Albert Einstein put it: "***Not everything that can be counted counts, and not everything that counts can be counted.***"

Thank you very much.

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