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SEMINAR ON MEASURING CAPITAL – BEYOND THE TRADITIONAL MEASURES  
SESSION IV

Social capital - ways ahead and ways blocked in national assessment  
and international comparisons

Submitted by Statistics Finland & National Research and Development Center for Social  
Welfare  
and Health (Stakes), Helsinki, Finland<sup>1</sup>

*Summary*

Social capital appears for many as a promising candidate to improve the explanation for differences in economic and social development between regions and nations. In order to be fully used for such purposes, social capital needs to become assessed on national or regional level in an internationally or inter-regionally comparable way. Attempts to proceed to this direction have been many, but achievements scarce. This paper discusses national experience from Finland, and some international comparison, with the purpose of determining the state of the art: where can we see promising avenues and where the ways seem to be blocked for internationally comparable assessment of the volume of social capital?

<sup>1</sup> This paper has been prepared at the invitation of the secretariat.

## **INTRODUCTION: THE ECONOMIC ROOTS OF THE SOCIOLOGICAL CONCEPT OF SOCIAL CAPITAL**

1. Social capital is one of the new or supplementary forms of capital (together with natural capital) which do not yet fit to framework of national accounts. For the organisers of this CES seminar, “a fundamental question in this context is to what extent these new forms of capital can be quantified in money values. Or are there other ways of in which these capital stocks and the changes therein can be measured in a meaningful way?” This review on measurement of social capital will show some ways to proceed, and will claim that some other ways are blocked, when measuring social capital as capital.

2. The basis for the interest in the concept of social capital lies in comparisons, with sociological overtones and economic undertones. The classic of the field, Robert Putnam’s (1993) work on differences between northern and southern Italy, already focuses on the role of social capital in explaining regional differences in economic and social development. Much of the interest in social capital in the economic research relates to similar issues. Social capital is one of the alternatives to explain the unexplained or residual variation in economic development between countries or regions (e.g. Hjerpe 1998, 2003; Woolcock, 2000). In order to be a useful concept in such effort, social capital should be measurable in comparable ways over time, between countries, and preferably also in terms of volume and not only in terms of trends. Briefly, it should be possible to assess social capital as capital. In the simplest formulation, social capital is like an economically invisible material that keeps societies internally together and smoothes its action, thus improving its economic and social performance.

### **I. SOCIAL CAPITAL AS CAPITAL: TWO OPPOSITE CAMPS**

3. In the course of time since Putnam’s first works, the enthusiasm around social capital has risen more among social scientists than among economists. In the latter camp, serious suspicions have been presented on the use of the concept. It has been claimed, among other critical remarks, that the term should be abandoned altogether, and in particular the capital metaphor is misleading. For instance, Quibria (2003, 7) quotes Kenneth Arrow (2000), one of the great old men, saying that social capital hardly fulfils three basic requirements for anything to be called capital: “(i) capital has a time dimension, (ii) it requires deliberate sacrifice of the present for future benefit and (iii) it is ‘alienable’ - that is, its ownership can be transferred from one person to another.

4. Quibria, in his critique, quotes also some proponents of the concept of social capital who admit that social capital may not actually be capital. As an example, Ostrom, (2000, quoted by Quibria (2003) in footnote 12 on p. 8) mentions four important differences between social capital and other forms of capital: “First, social capital does not wear out with use – on the contrary, it erodes from lack of use. Second, it is not easy to see or measure. Third, it is hard to through external (for example donor) intervention. Finally, national and regional government institutions strongly affect the level and type of social capital available to individuals to pursue long-term development efforts.”

5. In the economic camp, more understanding to the notion of social capital has been shown within regional economics (see e.g. Westlund and Bolton 2003). It is not self-evident why this is

so. Measurement of social capital is not easier on sub-national regional level than on national or international level, and the conceptual problems quoted above remain on the regional level as well. It may be that regional economic analysis in smaller regions allows more ways to assess various forms of intangible capital (see the next paragraph) than is possible to use on national or international analysis, and therefore also the residual containing social capital could be analyzed in more detail.

6. Another relevant strain in the economic debate of the last few years is the discussion on extending the notion of capital into aspects of wealth and sustainable development by the World Bank (*Where is the Wealth of Nations*, 2006; see also Hamilton and Ruta 2006), social capital has been mentioned, although mostly bypassing. Hamilton and Ruta (2006), interestingly, find out that what they call intangible capital has a majority share of all capital, and that share is highest in the economically most advanced countries. Intangible capital includes human capital, governance, institutional effectiveness and all other capitals not mentioned elsewhere. The last group, all other capitals, includes social capital. As for the method of assessment, Hamilton and Ruta mention the method of “difference” for all forms of intangible capital<sup>2</sup>. This method does not include direct measurement of the volume of capital and changes therein for any forms of intangible capital. It remains to be discussed elsewhere whether governance and institutional effectiveness are a form of social capital (as many proponents of the concept would suggest) or not.

7. In the sociological camp, the deficiencies of social capital as capital are readily admitted (see e.g. Engeström 2001), but they are not necessarily seen as obstacles for the advance of the use of the concept. It may be that whereas empirical economists are often obsessed with the measurement of the volume of social capital and changes therein, sociologists do not need such a volume-type concept nor its measurement. Even overall indices of social capital, without the purpose of determining the total volume, are more often found within economic research than within sociological research.

8. Indeed, regional economics seems to be the promised land for the empirical study of social capital. Impressive and detailed empirical works, resulting in some variant of a total index of social capital, can be found, for instance, on Italy (the multivariate analysis by Sabatini (2005)) and U.S. (e.g. Rupasinga et al. (2006) who continue down to the county level in their analysis).

## **II. ASSESSING SOCIAL CAPITAL ON NATIONAL LEVEL: WAYS AHEAD**

9. Our national experience of assessing social capital in Finland also originates from concerns of economic theory: the theory of endogenous growth (Hjerppe 1998, 2003) and its applications in regional economics (Alanen and Pelkonen 2000). The pioneer figure in the Finnish national debate on social capital, Dr. Reino Hjerppe, very much emphasised the usefulness of the concept of social capital in economic analysis. Later, however, most of the research interest and political concerns around social capital has concerned sociological issues like trust, or political efforts like the support to people’s participation in civic action.

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<sup>2</sup> The method of difference seems to refer to a kind of comparative analysis of the residual economic development that cannot be explained by more measurable form of capital. The method aims at relieving the role of various alternative explanatory factors.

10. Statistics Finland has published a statistical review *Social Capital in Finland* last year (2006). The articles in this publication review international measurements and statistical frameworks to find and extract indicators of social capital that can be obtained by using existing Statistics Finland's data sources. In measuring social capital it is important to consider not only the characteristics of social capital, but also its presumed outcomes as have been done in this report. The articles in the publication examine the key features of social capital, such as trust, participation, voluntary work, social interaction and reciprocity. Some special themes are also considered: whether the use of communication media adds to social capital and whether a correlation can be seen between perceived health and social capital. The articles also talk about social capital in workplace communities, enterprises' network relations and collective labour agreements.

11. Existing statistical datasets provide a useful tool for studying social capital, even though they have not been collected for the measurement of this concept. For example they give an opportunity to make comparisons over time. However systematic comparisons are not always possible because different datasets are updated at different intervals. Further, a broad and comprehensive analysis is not usually possible on the basis of just one dataset, but one must use different datasets simultaneously. Using existing datasets gives also opportunity to compare social capital in different countries and regions although it does not make for easy international comparisons. Analyses that integrate different materials combine usually different indicators and also questions that are worded differently in different countries.

12. Social capital measurement is usually based on examining different indicators that represent social capital's key components like has been done in Statistics Finland, as well as in Australia (*Aspects of Social Capital*, 2006) or in Canada (PRI's reports, 2005a,b,c). It has not been possible to measure the total volume of social capital in Finland yet. This is the situation also in other countries.

13. There is a common need to find out more about the multidimensional nature of social capital. It is not satisfactory to examine just a single dimension of the concept and consider it as representative of the concept as a whole, and analyze its effect on the economic performance. Actually, during the spring 2007, Australian Bureau of Statistics (ABS) is trying to establish whether social capital can be seen as a multidimensional concept, or a set of discrete phenomena drawn together under a 'social capital' umbrella label. This is part of the need to create a way to measure total volume of social capital in different countries which is still missing in the measure of social capital.

14. What would be the ways ahead in national assessment of social capital? Ideally, a special survey focusing on social capital and repeated with a few years' intervals would be a nice instrument for many. The problem is that there is no golden standard for assessing social capital. Another problem is, of course, that national statistical institutions and other data-collecting organisations are already overloaded with data-collection tasks. And the same goes for the respondents: declining response rates almost everywhere do not call for new data collection. The alternative is to rely on existing data from other, different sources. This is what has been done in Finland and some other countries a few times. And this is also the approach used in the detailed regional analyses mentioned above (Rupasingha et al 2006, Sabatini 2005). For a few years to

come, this kind of secondary analysis is the most likely course to improve national assessment of social capital.

### III. INTERNATIONAL COMPARISONS OF SOCIAL CAPITAL: WAYS BLOCKED?

15. There seems to be an implicit assumption in the assessment of social capital that it has some universal features that work uniformly in most countries and most cultures. Existing international or major regional comparisons cover countries from the same cultural circle (Anglo-American countries) or regions within the same country (e.g. Putnam's classic comparison between northern and southern Italy, or between the states of the U.S.).

16. One issue in particular seems to be problematic. That is the role of local or community civic action. Again implicitly, the Anglo-American proponents of social capital stress the importance of local community and the decisive role of voluntary civic action (implicitly, as against government-inspired action). This may be indeed a problem if some countries (like most Nordic countries) see state and government not as an obstacle but as an opportunity for civic action. "We are the state" could be a Nordic slogan, as regulatory and financial support by the government is an essential element in almost all civic action there. The government is predominantly something good, not something bad for civic action in the Nordic countries. How, then, could this kind of attitude towards civic action be included in the non-governmental voluntarism underlying the Anglo-American concept of social capital? Against this background, it is a bit paradoxical that Putnam, in his comparison between the U.S. states found that the most important single explanatory variable for differences in the volume<sup>3</sup> of social capital was the share of people of Scandinavian origin in the population of the states.

17. Real international comparisons of the volume of social capital are rare. Patulny (2004) used the World Values Survey and Multinational Time Use Surveys to find out what kind of differences in social capital exist between different social policy or welfare regimes (social democratic, liberal and corporatist). The focus was on the so called bridging social capital. In Patulny's (2004, 5) formulation, "Bridging is based on an emotional process whereby trust is generalised and oriented through social norms towards generalised 'others' we don't know very well". His research question was how the welfare regime may be involved in determining the volume of social capital. He did not develop a measure for the volume of social capital but constructed four variables to describe bridging social capital: trust, voluntary membership, volunteering activity and socialising activity. To the surprise of some proponents of social capital, strong government involvement (like in the social democratic welfare regime) did not erode bridging social capital. Patulny suggests in his conclusions that trends in bridging social capital are influenced both by the welfare regime type and, "importantly, welfare regime restructuring".

18. Iisakka (2004) also used the World Values Survey data in the study comparing the level of social capital in different countries. The aim of the study was to investigate whether there are differences in the level of social capital between countries where income differentials are high, average and low. Social capital was measured using the following measures: generalised trust,

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<sup>3</sup> The volume that Putnam describes is not volume in the economic sense but rather a kind of proxy of such an economic volume of capital.

trust in different institutions and participation in associations. According to the results social capital differed between these countries. Social capital was highest in the Nordic countries where income differentials were the lowest but against the hypothesis, the level of social capital wasn't lowest in countries where income differentials were highest. Against this background it can be said that also cultural factors have a significant role in measuring social capital. For instance, formal networks have bigger role in the USA than in Spain where informal networks, such as family, friends and relatives, are more important than participation in formal groups.

19. The fact that multi-national comparable data sets like the World Value Survey have been used for measurement of social capital does not exclude the possibility that the variables in survey data sets may be culturally incomparable. Take, for instance, the key issue of civic participation. In a country where government organisations have much of the same functions that civic organisations somewhere else, any survey question on volunteering in that country has a completely different contextualization compared with any other country where non-governmental action has upper hand. Therefore, even the technically most identical surveys cannot guarantee comparability in measurement of social capital, as many of its dimensions are culturally determined. This is a much overlooked issue in almost all comparative survey work, and it is extremely acute when measuring social capital.

20. Despite all the doubts presented above, many proponents of the concept of social capital have continued work to establish universal cross-cultural frameworks for measuring social capital. Among them, the World Bank is the most prominent one. Its work to develop an instrument (a questionnaire) for measuring social capital focuses on developing countries, and even there, mostly on measuring on the level of a local community or region (see e.g. Grootaert et al 2004). Indeed, it is admitted in the report describing the social capital questionnaire in detail, that "the tools needed to measure social capital at the level of households or individuals are very different from those needed to measure social capital at the country level" (Grootaert et al 2004, p. 5). It remains unclear what the experts at the World Bank would expect from a country-level measure of social capital.

#### **IV. QUESTIONS FOR FUTURE WORK IN DEVELOPING STATISTICS ON SOCIAL CAPITAL**

21. Our conclusion is rather pessimistic when thinking about the prospects of measuring the volume of social capital in a way that would be comparable over time in national assessment, and comparable between nations.

22. *At the national level*, various dimensions of social capital can certainly be measured by survey data and other types of data about social networks, civic action and participation. Technically and to some extent theoretically it might be possible to use multivariate approaches, if one has an extensive multivariate data set at hand. This is seldom the case, when using data that has been collected from various sources, both from registers and from sample surveys. The examples from the regional analyses in Italy (Sabatini 2005) and the United States (Rupasingha et al 2006) suggest that either giant surveys or use of mixed data may be the most promising way forward. Collecting regional data like those used in Italy and the United States is a laborious effort, in particular when repeated from one year to another. Of course, the problem that social capital at a community level is not necessarily a sum of social capitals on individual, household

or lower, sub-community levels, is problematic whenever aggregating from regions to national figures.

23. *In international comparisons*, the problems are even more complicated due to cultural variation in the concepts of networks, trust and reciprocity, for instance. In addition, the problem that social capital may be more a property of a collective unit, like nation or regional and local communities, is even more strongly present in international comparisons than in national assessment. It may be that the experts of the World Bank may have this problem in mind when making their remark that country-level measures require different tools from those applied on traditional regional and local analyses.

24. With increasing number of national reports on social capital, it may become possible to go deeper in the problems of international comparisons. So far, such reports have been too few and from culturally all too similar countries for really critical comparisons. Also serious attempts to assess the volume of social capital at national level have been rare. It may happen that this situation will be improved within a few years to come, and then it is time to return to the question

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