

## ***Banking on Social Capital***

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There are various forms of capital that are essential for wealth creation and human well-being. The more common one is natural (or ecological) capital, i.e. natural resources that are precious, such as forest and minerals. Of course, there is the business capital that includes physical structures such as machines or buildings or just financial capital. Then, with the advent of knowledge economy, more stress is placed on human capital as an important source of prosperity. It is now widely accepted that human capital embodies knowledge and skills which can be exploited for wealth creation. In fact, some estimates have revealed that, in developed countries, human capital is worth more than natural or business capital. Besides these three types of capital – natural, business and human capital – there is yet another category of capital increasingly recognised by economists, namely social capital, which is by no means a new concept. Originating as a sociological concept, the term “social capital” has made its way into the turf of economics, while scholars are trying to explore its empirical and operative significance.

What is social capital? Social capital is related to cooperation, interactions and networking in relationships between people (in micro sense) or governments (at macro level) such that the connections will eventually benefit society. It also includes the values and norms that are associated with such relationships including trust, dignity and respect which help to bond people together. These durable and persistent relationships are created between many parties such as families, corporations, governments, markets and nations. Social connections lead to trust and bonding, and when combined with collective actions, will bring economic benefits to society. Formal institutions that facilitate and enhance economic activities by enforcing contracts and upholding law and order are also considered as social capital. It may seem that the term “social capital” is just another new name for something we have already known, but studies and work by the World Bank have shown that this concept hold some operational promise, especially in promoting collective actions in poor communities. It is arguably called “capital” because persistent, lasting and positive social relationships do bring about economic

benefits. Of course, there are two sides to the coin. There are bad social relations that lead to crime groups or restrictive business coalitions but this is precisely what we are trying to avoid and instead concentrate only on the positive aspects of it.

A simple example, to see more clearly the various forms of capital, is to look at a school and its functions. The school building is a fixed asset. The teachers can be considered as human capital because of their knowledge stock. Then there is the money or financial capital to be invested in school facilities such as buying books for the library or computers for the students. These three forms of capital are quite easy to comprehend, but consider what else is needed to get the school to become a good one. One important factor is a strong working cooperation between parent-teacher association (PTA) and teachers. Good coordination between the two groups is essential as they stride together towards producing well-educated students. Persistent interactions between the PTA and teachers will enhance school activities and could step up checks on students' moral and intellectual development. In this example, we see how the various forms of capital interact to produce better students (and eventually economic benefits in the future). The various capitals are not substitutes but rather they complement each other to create a more efficient and productive school. We also see how the pursuit of self-interest (to be a good school) can be combined with community actions to produce better results. This, however, does not mean that we have exhausted all the factors affecting school performance. We have also to consider socio-economic status of parents and neighbourhood conditions surrounding the school.

At the national level, the existence of well-functioning formal institutions, a central bank for example, is part of social capital because it involves trust and interactions between the central bank and other financial institutions having a common goal of a healthy and stable financial system. To us Malaysians, since many of our institutions have somewhat matured and are able to function properly and quite effectively, this example is rather trivial. But in poor countries elsewhere where formal financial institutions are not functioning properly and receive little trust from the public, financial activity to support economic growth has been stifled badly.

Prior to the recent financial crisis, many studies recognised the contribution of social capital to rapid development in East Asia in the form of business and government networking. However, this network-capitalism has come under severe criticism of patronage relationship that led to lax compliance in banking and financial regulations. Still, there are many instances where network dealings, done within prudential and regulatory limits, contribute to the growth in East Asia. It is too early to say that the overseas Chinese “diaspora” has ceased to function anymore. In the US, cluster-driven structure of the Silicon Valley, quite similar to networks, has transformed it to become the most advance hi-tech area in the world.

Compared to other types of capital, social capital appears to be the most vague and broadest among them. But studies have found that, after trying to measure it and running statistical tests, social capital does have positive economic benefits. The two types of measures commonly used to gauge social capital are the level of trust in society and people’s engagement in social or voluntary associations. A survey can be done to measure trust by asking people whether or not they trust any stranger in public. On social participations, the number of membership in various societies are counted and monitored over a period of time. Voting turnout and newspaper readership are also taken as a sign of social connectedness. A study by Robert Putnam of Harvard University found that social capital in the US has declined over the decades. He found that social trust has dropped by one-third, while group memberships fell by one-fourth in the 1990s compared to the 1970s. In 1993, only 37 per cent of Americans said that most people could be trusted compared to 58 per cent in 1960. In greater detail, it was found that attendance to town or school meetings is down by 39 per cent while those working for political parties slumped by 56 per cent. Time spent on informal socialising and visiting friends have been reduced quite a bit. His analysis found that the key suspect is related to too much television, although other factors such as the dissolution of marriage and longer working hours do play some part in eroding social cohesion.

The stock of social capital is said to be increasing, if there is a long-term change in the amount of social bonding that leads to economic benefits. The perception is that

Malaysia would have scored high marks with respect to social capital as the country has managed to develop rapidly as a multi-racial society. Over the years, strong trust and bonding have developed between the major races, enabling them to work collectively towards nation-building. Nevertheless, there is plenty of room for improvement and a lot more can be done to strengthen national integrity. As for social participation in Malaysia, it seems to be getting better. The number of voluntary membership in the Malaysian Red Crescent and St. John's Ambulance increased from 46,558 in 1980 to 89,030 in 1998 (EPU'99). In urban locations around the country, a total of 471 *Rukun Tetangga* committees were established with membership of around 6.6 million people. As at December 1998, there are 27,029 registered societies in Malaysia being involved in various activities. The highest number is religious societies (4,741), followed by social and recreation (4,448) and social welfare societies (4,054). As for families in the Malaysian society, during the period 1980 to 1998, marriages increased by 2.9 per cent per year, while divorces fell by 1.3 per cent. Registered voters increased from 80.9 per cent in 1980 to 89.4 per cent in 1998, while voter turnout is stable at about 70 per cent. Unfortunately, crime per thousand population has increased from 5.3 in 1980 to 7.2 in 1998. Based on such sketchy evidence, our social capital appears to have improved significantly.