

Social Capital and the Living Standards Framework

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Introduction

It's a pleasure to be here today at the University, a place where people are exposed to new knowledge and points of view to see things in new ways and better understand the world they live in.

Speaking here at the Fale Pasifika is also special - the architecture, the art and the space itself is a vibrant embodiment of the Pacific community here at the University. *O lenei fale ua fai ma a'i e fa'amanatu mai ai le tautua ma le fa'amoemoe o tagata ese ese o Aotearoa. Tagata mai le Pasefika, ma tagata mai isi atunu'u o le lalolagi ua nonofo fa'atasi i le nei fanua o Aotearoa.*¹

The Fale symbolises a synergy of learning and living in a truly multicultural city like Auckland, by many counts one of the most diverse cities in the world. The Fale stands as a powerful symbol of how we can harness the intellectual and cultural diversity of our nation, something I'll speak about tonight.

At the Treasury, we are motivated by our vision of working towards higher living standards for all New Zealanders. Many people think that means we just focus on economic growth and the government accounts. Well, we absolutely do focus on that but not only that. Economic growth and the Crown's books will always be at the core of

¹ This house is a testament to the work and dreams of people from Aotearoa. People from the Pacific and people from all over the world, living and working together in this land of Aotearoa (translation from Samoan).

our work. But if they were the only things we focused on then we wouldn't be doing our job.

Our ambition is to integrate a broader conception of economics and value into the everyday work of public policy. We are taking this forward by developing what we call our Living Standards Framework (LSF). Traditionally, economists have focused their thinking about the factors of production, like land and labour, and how they are combined to create goods and services. The LSF is an adaptation of this notion: the four capitals – natural, human, social and financial/physical, which collectively I like to describe as our *economic capital* – are the stocks that combine to generate flows of wellbeing.

The Treasury isn't going it alone on this, nor could we or should we. Instead, we are inviting academic staff and students, public policy specialists and others to support and contribute to this challenging and exciting work. I'll come back to this later, but first I want to focus on social capital – what it means and how we can make it into a concept that can inform policy advice.

Economics and Culture

In our definition, social capital refers to the social connections, attitudes and norms that contribute to societal wellbeing by promoting coordination and collaboration between people and groups in society.

In societies with low social capital, you have to keep an eye over your shoulder and deals need lawyers instead of handshakes. In low social capital societies, people don't see the point of paying their tax or recycling their rubbish since they doubt their neighbour will do so. They would rather employ their cousin or brother-in-law to do work for them than a stranger who might be more qualified for the job.² In contrast, societies that have high levels of social capital benefit in many ways. They have lower crime rates, better democratic functioning, better economic performance, higher educational outcomes and higher levels of individual health and wellbeing.

Shortly, I'll present a framework that we have set out in a recent discussion paper that puts some more structure on these ideas. But there's a much simpler word that might come to mind from these initial sketches: the concept of 'culture'. The idea of social capital is a reflection of the fact that an economy is always embedded into a society, and that the culture of the society has an impact on its economy and vice-versa.

If that sentence sounds intuitive to you, you might wonder why it's taken us so long to catch up. It just seems like common sense: of course the norms and values of a place make a difference for the lives of its people and the strength of its communities. Why would this be news to anyone?

² Adapted from Halpern 2015

This reaction is understandable, and so before diving deeper, I do want to take this opportunity to set this work on social capital in the broader context of the Treasury's role as an economics and finance Ministry.

In my view, our development of the Living Standards Framework is simply part and parcel of our role in advising Government. Democratic governments have always had broader objectives than just growth, productivity, and fiscal discipline. What we are trying to do is help to bring rigour to the way we provide advice on how well public spending meets these wider objectives in a consistent way.

However, I do acknowledge that the ideas invoked as part of social capital can seem 'fuzzier' than those traditionally thought of as 'typical' economic policy advice. But the traditional view of economics is more of a caricature than reality. There is plenty of intellectual plurality within the economics discipline and culture, norms, and values are all topics that find their way into the analyses of some of the leading lights of economics.

Let me give just a few examples, confining myself to scholars that have won the Nobel Prize in economics. Douglass North spent his whole career developing theories about how the functioning of markets is linked to the strength of a country's legal and political institutions.³ Robert Shiller has written about the power of public stories and narratives in shaping large scale economic behaviour.⁴ George Akerlof has explored how social identity can be incorporated into microeconomic models of behaviour.⁵ And Elinor Ostrom showed that local communities around the world can solve complex economic problems by relying on trust and informal norms.⁶

The concepts of culture are not taboo for economists and an appreciation of the breadth of the discipline makes that clear. The key is to keep this pluralism in mind. There are a range of tools and models that economics provides us and as policymakers we need to train ourselves in the art of choosing the right analytical tools to develop our advice. In this sense, thinking about culture as part of our analysis of social capital should not really be that radical at all for an economics and finance Ministry like the Treasury.

Having just defended a broader conception of economics, I do want to make clear that no single discipline gives us all the answers. As our discussion paper acknowledges, the academic literature on social capital is in fact an amalgam of many disciplines, ranging from political science and psychology through to political philosophy and sociology.

A proper understanding of social capital will require an openness to many disciplines – and this is not something that is a new thing for the Treasury. For more than fifty years,

³ North 1990

⁴ Shiller 2017

⁵ Akerlof and Kranton 2011

⁶ Ostrom 2009

our practice in hiring graduates has been to seek bright young New Zealanders from any field of study⁷ and we continue to foster healthy internal debate and diversity of thought. As part of our work on the LSF, we also want to encourage more experts and voices from the outside of the Treasury to help us carry this thinking forward. This is why we have established a 'Community for Policy Research'. As we identify gaps in our knowledge we want to call on the expertise of scholars around New Zealand to help us fill these gaps. Today is just the start of a conversation, not the end of one.

Towards a Treasury Framework for Social Capital

Let me now outline our proposed framework for social capital. The discussion paper surveys a wide range of evidence and theory, but we do propose a view on how this can be put together for public policy. This is not perfect, and it doesn't capture every nuance in the literature. Our approach is unapologetically pragmatic: we are trying to set out a framework that can improve the quality of policy advice and, ultimately, the decisions made by governments.

To repeat what I said earlier: our definition is that social capital refers to the social connections, attitudes and norms that contribute to societal wellbeing by promoting coordination and collaboration between people and groups in society.

This definition relies on a key distinction between public and private social capital. Public social capital refers to norms that encourage successful collaboration between citizens towards outcomes that are beneficial for society. It can be seen as a public asset. On the contrary, private social capital is a personal asset. It is about the people who support you and provide you with access to resources, such as that new job or house that is available but not on the market yet. Individuals use private social capital to improve their own wellbeing in competition with others.

Public social capital is by definition beneficial for societal wellbeing. Many forms of private social capital are beneficial for society too, for example when people support each other rather than relying solely on government services. However, private social capital can also be exclusive and result in negative societal wellbeing outcomes when people come to exist in small worlds – close and closed communities – as a result of which they do not share values, understandings and commitments with the wider society of which they are a part. So private social capital can be a double edged sword which is why our framework focuses on public social capital.

Public policy has a profound impact on social capital. Government policies influence the growth and decline of social capital through their effects on institutional quality, income and wealth inequality, poverty, housing mobility and ownership rates, family and whānau wellbeing, the construction of the built environment and educational outcomes. A shared understanding of what social capital means, why it is important, and what the key risks and opportunities are, is, therefore, a fundamental first step towards a coordinated cross-government approach for better social capital outcomes.

⁷ McKinnon 2003

I just said that public social capital is an asset, consistent with the economic stock-and-flows idea that underpins our LSF. But some argue that social capital isn't really a form of 'capital' and have criticised the metaphor for being misleading, as social capital is fundamentally different from other forms of capital, as it requires ongoing use to maintain its value.

This is a relevant point, and important for public policy. It means that we shouldn't think about "storing" or "saving" social capital for the future, but rather we need to think about maintaining and nurturing it. But this doesn't undermine the metaphor itself – a similar point is often made about human capital – that if people don't use their skills and knowledge then they degrade over time. Thinking about stocks of social capital is still useful to allow us to think about how it works alongside the other capitals to generate wellbeing outcomes for individuals and communities.

Our proposed conceptual framework for the stock of public social capital includes five core elements.

First is social connections. These are the networks that link individuals and groups together through common activities, attributes and interests. Individuals generally belong to more than one network at once. In addition to a form of family or whānau, most people are part of other social networks, such as those based on physical location, hobbies, vocation, parental status, ethnicity or religion.

Second is the sense of unity. This is about the extent to which individuals identify with the wellbeing and needs of social groups. Psychological research shows that group identification is key in encouraging individuals' motivation for pro-social behaviour. For the wellbeing of society, it is therefore important that people do not only identify with others in their own personal networks or those who are similar to them, but also experience a wider sense of community and belonging to the overall society.

Third is pro-social norms and values. These are the normative rules that predispose individuals towards collaboration with others and help motivate and enable diverse groups to work together. They include norms such as being law abiding, generalised reciprocity (helping people without expecting something back), tolerance of diversity, and generalised trust in others in society.

Fourth is pro-social behaviour. This is about individuals working together in the light of common interests, and is also often referred to as civic behaviour and active citizenship. At a basic level, civic behaviour means that individuals comply with formal and informal rules and agreements, even when they are unlikely to be caught for non-compliance or if the threat of punishment is minimal. Examples of more active forms of pro-social behaviour are jury service, environmental stewardship (or kaitiakitanga), volunteering and political engagement.

Fifth is trust in institutions. This is about the interface between individuals and their institutions and the extent to which people can rely on the legal and administrative

branches of the state responsible for the implementation of public policies. For example, people need to trust that civil servants, judges, the police, public media are impartial, responsive, and accountable. This encourages a stable and safe environment for people to work together and influences how willing people are to comply with the outcome of a given process.

These five social capital building blocks form a dynamic system. The strength of each element of social capital influences the strength of the others. For example, people who feel alienated from others in society and the institutions that underpin it, can start to show anti-social behaviour that harms or lacks consideration for the wellbeing of others. Trust in institutions underpins the other building blocks of social capital by facilitating the development of pro-social norms and values and collaboration between citizens, and society as a whole benefits from this.

New Zealand's Distinctive Social Capital

We've built our framework off international evidence and theory. There's a great virtue in doing this. It means that we can tap into international thinking about the determinants of social capital, and develop tools for measurement and policy that allow us to compare how New Zealand is doing against the rest of the world.

At this stage, internationally comparable data on social capital indicators, such as generalised trust, is hindered by differences in data collections. Work is being done to address this issue. For example, the OECD has recently published an international guideline for the measurement of trust. Based on current data, New Zealand appears to be at the top end of the spectrum, with high levels of generalised trust in our society.

However, we are acutely aware that we can't just adopt thinking from overseas. We need to avoid the pathology of foreign paradigms that I talked about last year.⁸ Our distinctive culture matters and we need to reflect on a social capital framework that makes sense for New Zealand. This is why we are very keen to engage with the broader academic community as we develop our framework, to ensure that it will be tractable for our unique context and helpful for making better public policy in our country.

In fact, some people have asked us why 'culture' doesn't seem to appear in our framework, and whether we should add a notion of 'cultural capital' into our model of intergenerational wellbeing. But for now at least, we won't be doing that. In part, this is a reflection of what I spoke to earlier. We can't think of culture in a box that we can separate from the operation of society and the economy – it is intertwined with them all.

For instance, māoritanga is reflected in all four capitals. There are clearly Māori interests in New Zealand's natural resources; Māori relations and trust in the state; the Māori economy; and the impact of the education and health systems on Māori human capital and the role of Māori culture in that.

⁸ Makhoulouf 2017

And of course, we are a highly multicultural society, and so we need to think about both cultural diversity and the overarching “meta-culture” that enables people to work together across cultural differences.

Social capital is about bridging relationships and the norms and values that enable people to work together across cultural differences. This includes norms around equity, tolerance of diversity and generalised trust between different cultural groups. Within cultural groups, social capital tends to have bonding qualities. It is about the strength that we gain from being connected to others who are similar to us. It is about a sense of belonging and feeling understood without having to explain yourself.

For public policy, there is an important challenge around balancing these bonding and bridging types of social capital. Too strong formal or informal requirements for individuals to fit in with mainstream culture can harm cultural diversity. Yet, too little emphasis on our meta-culture can take away our focus from what we have in common and lower trust between people with different cultural backgrounds. An important question for public policy is therefore how to encourage cultural bridges, while safeguarding the strength that people can gain from their diverse cultures.

This sentiment has been captured recently by Damon Salesa, who as you may know is Associate Professor of Pacific Studies here at the University of Auckland. He wrote: “The task of living in modern New Zealand...is not just to understand how to live with different peoples, but how to adapt to the future that has already happened but not been fully expressed.”⁹ This is a call we appreciate as we adapt our social capital framework to our local reality.

For the Treasury, we are constantly aware of our connection to culture and place. It is embodied in the way we use our Wharenui, Ngā Mokopuna a Tāne. This is a room that is at the heart of the Treasury, adorned with woven tukutuku, kowhaiwhai panels and whakairo carvings that remind us of the knowledge of successive generations in the place where we do our work. It reminds me that we are set apart from any other Treasury department in the world. Much like this Fale, our Wharenui is a special space that reminds us of our duty to New Zealand and our connection to all its people.

Next Steps: Measurement and Policy

Today I’ve been talking mainly about social capital, and giving you just a flavour of what is set out more fully in the discussion paper we published on this topic a month ago. This paper was part of a suite of papers on the LSF, which together form an important milestone in a programme of work running throughout 2018 and beyond. Let me tell you about some of what’s happening next.

In a few months’ time we will release a second tranche of discussion papers that we would like you to engage with. These will be covering a number of topics such as

⁹ Salesa 2017

resilience, culture, Māori living standards, Pasifika living standards, and physical and financial capital.

By the end of 2018 the Treasury intends to develop a dashboard of indicators suitable for understanding intergenerational wellbeing in New Zealand. The dashboard of indicators will need to be robust to provide long-term advice, but also be responsive to the wide variety of short- and long-term requirements that the Treasury and other government organisations have. Our indicators will be designed to consider both our current wellbeing and the sustainability of our wellbeing, represented by the four capital stocks.

There will be three distinct types of indicator:

- Best evidence indicators for comparison between New Zealand and other countries, to understand current and future trends in living standards.
- New Zealand specific indicators of current and long-term wellbeing, particularly with respect to Treaty of Waitangi obligations and values, and other aspects of New Zealand's unique diversity.
- Indicators for current policy priorities that supplement the medium to long term focus of other indicators to support short term focussed action by government and government agencies.

Measuring the value of public social capital is not easy and although we have started on this journey, we are still very much near the starting line. Suggested indicators of social capital include generalised trust, the strength of our national identity, civic engagement and institutional trust. The availability of robust indicator data on social capital has considerably increased since the start of the New Zealand General Social Survey in 2008. Nonetheless, there is still a lot of work left to develop these indicators. The work going on now by the Treasury and many others helps to build understanding of what social capital means in a public policy setting. It allows us to build on existing indicators of social capital and to identify what information needs improving.

As I mentioned at the beginning, this is challenging and exciting work. Some critics suggest that we are straying beyond the boundary of where economists should be, I disagree. In fact, I think we are at the harder and leading edge of economics. How to improve living standards is at the heart of economic thought and the objective of economic policy. Our role as economists is to bring together different strands of evidence and analytical thought and weave them into a basket to carry forward public policy. It's a challenge – *a leap of thinking* – that we want to meet working with others.

We are welcoming others to support and contribute to this exciting work. So I'd like to conclude with an acknowledgement of all the work that has contributed to the Living Standards Framework and relevant measures so far, and offer my thanks in advance for the contributions to come.

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