

**Development under Conditions
of Inequality and Distrust:
An Exploration of the Role of
Social Capital and Social
Cohesion in Latin America**

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Abstract

Intended as a contribution to the discussion of the relevance of social capital and social cohesion to Latin American development, this paper treats the two as assets for development and the creation of welfare. The paper defines the concepts, including their uses and limitations, and analyzes some of the key relationships involved. It also introduces an index of social cohesion and presents evidence of positive linkages between levels of social cohesion and development-related outcomes such as growth, investment and innovation capacity, governmental effectiveness, the quality of public policies, and the predictability of the policy environment. The paper concludes with a discussion of the implications for the choice of policies and public action.

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Introduction

Development and human welfare are complex propositions and the consequences of many factors. The satisfaction of material needs is but a partial answer to the broader question of what happiness is and how improvements in the quality of life can be secured. Income is an important aspect, but so are other dimensions of fulfillment and contentment, in particular physical and mental well-being, trust and respect, dignity, belonging, and the degree of control over one's destiny and life.

While income is positively correlated with some of these dimensions, the literature shows that the relationship between income and broader indicators of welfare is often tenuous and sometimes negative. For example, examining causes of welfare gains in developing and OECD countries over time, Charles Kenny and Anthony Kenny (2006: 100) find that government intervention, technology, and institutions, not national income, were critical to securing improvements in public health. Their analysis leads them to conclude that for “the great majority of countries, it is likely that the causal link from welfare improvements to economic growth is considerably stronger than the causal link from economic growth to improvements in welfare.”

The case for including non-income measures in analyses of development, welfare and the quality of life, therefore, seems strong. This paper addresses two such dimensions—social capital and social cohesion—that can be thought of as ends in themselves and as means to achieve other objectives, such as faster economic growth. Social capital and social cohesion refer to the level of satisfaction of peoples' relational needs. Social capital is the degree to which citizens are able to work together because they trust in the rules, institutions and each other. Social cohesion can be similarly defined, but in addition to the ability to cooperate, social cohesion also refers to solidarity and to a sense of belonging that is generated by a system structured with the purpose of ensuring the welfare of all.

This paper treats social capital and social cohesion as assets for development and the creation of welfare. It can be argued that meeting the challenges of sustainable growth in a context of increasing globalization requires flexible, yet cohesive societies able to share the costs of adjusting to changing market conditions and to sustain quality investments in infrastructure and in the education of the workforce. In principle, societies with high levels of social capital and cohesion will be better positioned to face these challenges and more responsive at the individual level and in organizational terms.

The first section of this paper examines the application of the two concepts to policy discussions by looking at how the concepts have been defined and used in certain settings and in the academic literature. The second section discusses the relevance of the concepts for development in Latin America, given the region's historically high levels of social and economic inequality and exclusion, and relatively weak mechanisms of social protection. A social cohesion index is developed in section three that allows exploration in section four of how social cohesion relates to outcomes linked to development, including the rate of economic growth, technological innovation capacity, governmental effectiveness, political stability, and the quality and predictability of the policy environment. Section five concludes and spells out some of the implications for the choice and design of public action.

Social Capital and Social Cohesion: Definitions and Applications

In recent years, the concepts of social capital and social cohesion have become more widely used in policy-related discussions of governments and international organizations as well as in academic studies. As such, the concepts have attracted interest both as policy goals (or as frameworks for organizing policy debates) and as points of reference for social scientific analysis (Beauvais and Jenson, 2002; Bernard, 1999). In respect to the latter, however, work is at an early stage and is limited by a lack of agreement on the definition and applicability of the concepts and the deficiency of existing measures both in terms of their conceptual validity and their coverage.

This section examines different definitions and uses of the concepts based on a selective survey of the theoretical and empirical literature. It addresses social capital first and subsequently deals with social cohesion.

Social Capital

The idea behind social capital is not new in the social sciences. The notion of relational arrangements and cooperation “recaptures an insight present since the very beginnings of the discipline” (Portes, 1998: 2). In the last decade there has been growing interest in this area. In 2000, the topic of social capital occurred in about a quarter of the absolute number of citations in EconLit, a database of publications in economics.¹

The definitions of social capital vary widely in this literature, but there is also some degree of consensus around the positive contribution of trust and certain types of social engagement and cooperation to growth and well-being (Franke, 2005: 2). Indeed, the problem of trust has been singled out as one of the most fundamental challenges in organizations and society at large (Ostrom, 1998; Rothstein and Stolle, 2002), on the intuition that “trust acts like a lubricant that makes any group or organization run more efficiently” (Fukuyama, 1999: 16). This intuition is supported more formally in standard non-cooperative game theory which makes it clear that “it makes no sense to support solutions for the common good if you do not trust most other agents to do the same” (Rothstein and Stolle, 2002: 2).

The instrumental value of social capital for public and private organizations is evident from studies showing that “enterprises devote an ever more relevant part of their financial resources to activities which are not directly related to production processes,” including, for example, “nurturing a cooperative climate inside the workforce and building trustworthy relationships with external partners” and clients (Sabatini, 2006: 2).

Social capital is often invoked in public policy making where it has been understood both as a factor affecting the achievement of collective benefits and as an outcome indicator of welfare, as exemplified by the Canadian Government and international financial institutions such as the World Bank.² In 2003, the Canadian Government endowed the Policy Research Initiative (PRI) with the mandate of operationalizing the concept of social capital as a public policy tool:

¹ Fabio Sabatini (2006: 3) citing Isham and others (2000).

² See Franke, 2005; Sabatini, 2006; Fine, 2001; Harriss, 2002; Grootaert and Bastelaer, 2002.

The concept of social capital is important for the Government of Canada, because it brings together the theoretical and empirical rationale for considering social ties as a potentially important ingredient of well-being and prosperity in society (Franke, 2005: 37).

The PRI developed an operational framework for social capital based on a social network approach in which social capital is defined as “the social networks that may provide access to resources and social support” (Franke, 2005: 9). By contrast, the OECD considers social capital as an outcome and, in particular, emphasizes its value as an indicator of social well-being (Franke, 2005: 3-4). Similarly, the British Office of National Statistics uses it as a measure of the degree of social integration.

Apart from differences in the perspective regarding the flow and direction of causality, there are also differences regarding the appropriate levels and units of analysis (Franke, 2005; Grootaert and van Bastelaer, 2002). Three main approaches have guided the study of social capital in international organizations and, more broadly, the public sector: the micro-approach (i.e., relations between individuals), the meso-approach (i.e., relations between groups), and the macro-approach (i.e., the “structural” environment in which relations take place).

In the micro-approach, social capital delineates the potential for individual cooperation through the formation of groups and associations to strengthen collective capacities. The meso-approach looks at social networks and their value in providing resources, such as information and assistance, to individuals and groups. The macro-approach focuses on the structures (e.g. institutional, socioeconomic and political) that create the enabling environment for social engagement and civic and political participation (Franke, 2005).

Among scholars, there is some agreement that social capital is multidimensional, context-dependent and dynamic in nature (Sabatini, 2006). The literature comprises three basic approaches represented, respectively, by the work of Pierre Bourdieu, James Coleman and Robert Putnam (see Adam and Roncevic, 2003; Portes, 1998; Sabatini, 2006).

Bourdieu emphasizes the instrumental value of social capital, stressing the potential benefits of participation and social connectedness in enhancing access to economic resources, cultural capital, and valued credentials. He defines social capital as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition ...” (Bourdieu, 1986: 248). He identifies three types of capital: economic, cultural (or human capital), and social capital. With this distinction, he aims to build a theory that explains how the different types of capital relate to each other and accumulate, and how people tend to convert some forms of capital into others in order to preserve their social positions and resources.

Emphasizing the similarity with other forms of capital, *Coleman* highlights the productive nature of social capital (1990: 302). According to this author, social capital “is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure” (Coleman, 1988: S98).

Putnam who, as is well known, has greatly contributed to the popularization of the concept of social capital, defines social capital in his 1993 work with Leonardi and Nanetti as a

“feature of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions” (Putnam, 1993: 167). In a subsequent work he highlights the interplay between group membership and the development of trust and cooperation. Social capital is seen as the “connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them” (Putnam, 2000: 19).

In the definitions of these three scholars, as well as those of several others, trust is often singled out as the essence of social capital. Fukuyama, for instance, practically equates social capital with trust (see also Rothstein and Stolle, 2002; and Bowles and Gintis, 2002):

Social capital is a capability that arises from the prevalence of trust in a society or in certain parts of it (Fukuyama, 1995: 26).

Social capital can be defined simply as an instantiated set of informal values or norms shared among members of a group that permits them to cooperate with one another. If members of the group come to expect that others will behave reliably and honestly, then they will come to *trust* one another. (Fukuyama, 1999:16)

Restricting the concept to informal values or norms, as Fukuyama does, can be problematic. It is clear that cooperation, in part, arises from individual motivations, which may be “informal.” But the climate for cooperation emerging from trust and shared values and norms is not exclusively based on informality. To a considerable extent, norms and values are created and fostered through formal institutions and/or externally enforced rules, implying some degree of formality in many kinds of shared values and rules. Norms and rules are often transcribed into laws, serving the purpose of organizing society.

As in the case of physical, financial and human capital, social capital is an asset that mediates access to resources and benefits such as status, information, income, power and influence. Following Bourdieu, it is therefore important to understand how different forms of capital operate in terms of their “mediating” nature and how they interrelate.³ Reflecting on these differences, Portes (1998: 7) points out the unspecified time and terms of repayment of social capital as opposed to what is the case in the context of purely economic and financial exchanges. Comparing the mobility and transferability of social capital with economic or physical capital, Arrow (1999) notes that with the former it is more difficult to change ownership.

Numerous studies have highlighted the shortcomings, ambiguities, and uncertainties as to causes and effects that haunt empirical work on social capital even within the same conceptual (or definitional) tradition. It is difficult “to devise a single concept and a single valid measure of social capital” (Adam and Rončević, 2003: 160; see also: Arrow, 1999; Durlauf, 2002; Durlauf and Fafchamps, 2004; Sabatini, 2006). Sabatini makes the point that, although there is recognition that social capital is a multidimensional concept, empirical research tends to focus on partial aspects, ignoring social and historical circumstances and focusing on one type of network while nonetheless generalizing the findings to the entire population. The author regrets the lack of a good “micro theory explaining trust transmission mechanisms from groups to the entire society” and the fact that “the logic

³ Franke (2005) develops a hypothetical development trajectory of the relative sizes of different types of capital.

underlying the connection between social ties and generalized trust has never been clearly developed” (Sabatini, 2006:12; see also Rosenblum, 1998; Uslander, 2002).

And yet, while criticizing the definition and uses of the concept, many of these studies accept its intuitive value. Durlauf (2002) argues that social capital research had a “salutary effect on economics” through its “introduction of richer sociology into standard reasoning.” But he recognizes basic definitional problems, along with econometric difficulties, that have to do with the exchangeability and identification of the models specified, which in turn calls into question the causal role often ascribed to social capital.

It is precisely to deal with these shortcomings that authors such as Portes (1998: 6) emphasize the need to distinguish between the sources and owners of social capital and the benefits engendered or pursued. Along the same lines, Sabatini (2006: 11) stresses the importance of finding direct measures of social capital, to overcome the confusion that exists between social capital, on the one hand, and the benefits that it is believed to convey, on the other.

Aside from the conceptual and methodological discussion, there is a further issue that has to do with the intrinsic instrumental value of social capital. There is some agreement that certain types of social capital, or groups bound by social capital, may have negative effects on individuals and communities, subtracting from the common good (Smith, [1776] 1991; Olson, 1982; Portes, 1998; Granovetter, 1958, 1973; Durlauf, 2000; Fukuyama; 2000). According to Portes (1998: 15), negative consequences of social capital include: exclusion of outsiders and restricted access to opportunities; excessive claims on group members; restrictions on individual freedoms; and downward leveling norms.

In this context, Putnam distinguishes between bridging and bonding social capital. Bonding social capital refers to social ties between the members of relatively closed and homogeneous communities that tend to pursue narrow and particularistic interests, often against the common good. Bridging social capital, in turn, refers to what Granovetter (1973, 1958) calls “weak social ties” that take place in more diverse and open communities that tend also to favor links and cooperative exchanges with other networks.

Social Cohesion

One of the first uses of the concept of social cohesion in a policy-making context was in relation to the process of regional integration in Europe. European law favors actions to strengthen economic and social cohesion as a means of promoting the harmonious development of Europe,⁴ an objective that requires the reduction of disparities between countries and regions.

The Council of Europe⁵ recently outlined a strategy in which it set social cohesion as a priority goal for European countries.⁶ In the document, social cohesion is defined as “the capacity of a society to ensure the welfare of all its members, minimizing disparities and

⁴ Title 5, Article 130A, Official Journal L 169, 29-06-1987, p. 0009.

⁵ The Council of Europe was established in 1949. It consists of 46 member countries and has its headquarters in Strasbourg (France). The Council of Europe is not an institution of the European Community (composed of 25 member states), though no country has entered the Union without first belonging to the Council of Europe.

⁶ The Revised Strategy for Social Cohesion, approved by the Council of Europe in March 2004 (Council of Europe, 2004).

avoiding polarization.” Thus, in this context social cohesion is defined in large part as a policy goal focused on ensuring that all citizens have an opportunity to improve their situation and are guaranteed basic social rights such as decent living standards and adequate health care.

Social cohesion also plays a role in framing policy discussions in Canada, with the creation of a Social Cohesion Network and the publication of a report on social cohesion by the Canadian Senate. The Canadian interest in the concept arose in part from the perception that the forces of globalization were contributing to the exacerbation of social cleavages and weakening the traditional axes of community identification, including democratic values, mutual attachments and willingness to engage in collective action (Jeannotte, 2003). The Social Cohesion Network got underway in 1998 with a values-based definition of social cohesion as “the ongoing process of developing a community of shared values, shared challenges and equal opportunity within Canada, based on a sense of trust, hope and reciprocity among all Canadians.” It is worth noting that in 2002, the Network adopted a more behavioral definition reminiscent of some of the discussion regarding social capital referred to above: “social cohesion is based on the willingness of individuals to cooperate and work together at all levels of society to achieve collective goals” (Jeannotte, 2003: 3).

The governments of several other countries, including those of Australia, Denmark, France, and New Zealand, have also focused on social cohesion, partly in order to highlight the close connections between social and economic policy and the need to coordinate policy actions across multiple sectors. The definition developed by the Government of New Zealand is perhaps the most comprehensive: “Social cohesion describes a society where different groups and institutions knit together effectively despite differences. It reflects a high degree of willingness to work together, taking into account diverse needs and priorities. Social cohesion is underpinned by ... : individual opportunities (including education, jobs, health); family well-being (including parental responsibility); strong communities (including safe and reliant communities); and national identity (including history, heritage, culture and rights and entitlements of citizenship)” (quoted from Canadian Senate, Standing Committee on Social Affairs, Science and Technology, 1999).

The focus on social cohesion by multilateral development institutions, such as the World Bank and the Inter-American Development Bank (IDB), builds on many years of development-related research pointing to the complementary nature of efforts to reduce inequality (such as by investments in human capital through expenditures on education, health care, and social protection) and to promote sustainable development, as well as on more recent research highlighting the importance for development of such factors as political stability, transparent and accountable government and social capital. In previous work at the IDB, the goal of building social cohesion has been viewed to entail a focus on reducing social exclusion and inequality and enhancing social solidarity, both in terms of building more cooperative relations among citizens, and a greater degree of civic responsibility in citizens’ relations with public institutions (Bouillon, Buvinic, and Jarque, 2004).

Various dimensions of the concept have been identified in the literature, with some researchers choosing to limit their focus on particular constituent elements and others taking a broader approach. For instance, Jenson (1998) and Bernard (1999) adopt a comprehensive approach in which social cohesion is comprised of six dimensions: 1) equality-inequality; 2) recognition-rejection (referring to the degree of respect and toleration of differences); 3)

legitimacy-illegitimacy (with respect to the institutions that act as mediators of social relations); 4) inclusion-exclusion (degree of equality of social and economic opportunities); 5) belonging-isolation (involving the extent of shared values, identities, feelings of commitment); and 6) participation-non-involvement.

Other researchers have chosen narrower definitions. As indicated above, the Council of Europe centers its definition around the objectives of minimizing social and economic disparities and ensuring opportunities for all. Another group of researchers has emphasized the importance of shared values and a sense of community belonging (Maxwell, 1996; Miller, 1998; Dahrendorf, 1996; Chan, Chan and To, 2003). For example, Chan, Chan and To (2003) consider a cohesive society to be one in which “citizens can trust, help and cooperate with their fellow members of society, share a common identity or sense of belonging to their society, and the subjective feelings in the first two points are manifested in objective behavior.” Other researchers have focused on an ability to work together (Ritzen, Easterly and Woolcock, 2000; Reimer and Wilkinson, 2003; Canadian Social Cohesion Network in Jeannotte, 2003) or on the strength of community bonds.

In an effort to bring together these various approaches, Berger-Schmitt (2000) identifies two main societal dimensions in the concept of social cohesion. The first dimension relates to the reduction of disparities of opportunities, inequalities and social exclusion and the second to the strengthening of the “density and quality of relationships and interactions between individuals or groups, their mutual feelings of commitment and trust due to common values and norms, and a sense of belonging and solidarity” Thus one dimension has to do with the extent of social exclusion/inclusion and the other with social capital.

The definition and operationalization of social cohesion adopted in this paper is based on this two-dimensional perspective of the concept. *Social cohesion entails a capacity for cooperation and solidarity in society based on an equitable distribution of opportunities to participate in economic, social and political life as well as trust in societal rules, institutions and fellow citizens.* Understood in this way, the concept of social cohesion can be operationalized in terms of two separate dimensions.

The first dimension focuses on the degree of equity in the distribution of opportunities. For example, only if citizens have the opportunity to find decent work and some guarantee of protection with respect to their personal security, health, and livelihood are they likely to share a sense of responsibility and feel part of, and be willing to contribute to, the community. The second dimension centers on the extent of social capital that is present, that is, the degree to which citizens are able to work together because they trust each other. Where there is a lack of basic trust in institutions and fellow citizens, the scope for mutually beneficial transactions between individuals and societal groups is low.

Concluding this discussion of social capital and social cohesion, we note that there are definitional and measurement problems as well as questions about the relationships and “elasticities” governing the phenomena’s emergence and effects. At the same time, social capital and social cohesion have been invoked widely in academic and policy contexts, where there seems to be agreement around the fact that the concepts make “intuitive sense.” The sections that follow attempt to demonstrate some of the linkages between social capital and social cohesion and development results.

Development under Conditions of Inequality and Distrust

Latin America displays certain characteristics that by the above definitions would seem to imply low average levels of social capital and social cohesion. In particular, trust is scarce in the region, and inequality is pronounced. The implications for development are discussed in this section.

Latin America is the most unequal region in the world (Figure 1) and distrust is omnipresent. The problem of trust is addressed in opinion surveys, according to which Latin Americans trust their families, neighbors and friends, but open interpersonal trust in fellow citizens is rare (Latinobarómetro, 2006: 29-32). Trust in public institutions is very low, because people feel treated unfairly and inequitably by them (although trust in public institutions can grow as a consequence of positive experience with them). Latinobarómetro data for 2006 suggest that 56 percent of the people consider themselves discriminated against in their dealings with institutions. Another 19 percent are of the opinion that they are treated unfairly because they are poor.

Latin American countries display highly skewed distributions of income and vast inequalities in access to basic services, credit, education, health care and jobs. The distributions of income are not necessarily static across time, but have been shown to vary at the margin in the countries where this has been studied. Ferreira, Leite and Litchfield (2006), for example, calculate Gini coefficients for Brazil of 0.574 in 1981, 0.625 in 1989 and 0.564 in 2004, a decline in inequality of some ten percent between the latter two points in time, due in part to new approaches in redistributive policy and some income convergence between rural and urban areas.

Nevertheless, in the countries of the region, the distributions of income are on the whole rather flat up to at least the seventh decile (Figure 2). This has important implications for the dynamics of poverty and the prospects for inclusive, participatory growth. The lowest two deciles tend to harbor the very poor. The incidence of “extreme” poverty (using national poverty lines) is currently estimated at some 17 percent. The flatness of the distributions in Figure 2 implies that a large segment of the population is concentrated near the poverty line, and it suggests the presence of many low-income “non-poor” who can easily (and in fact often do) fall into poverty as a result of employment and other shocks even as some of those officially considered poor exit poverty with or without the help of redistributive programs of the State.

Figure 1. Comparison of Inequality among World Regions (Gini coefficient last year available, 1997-2004)

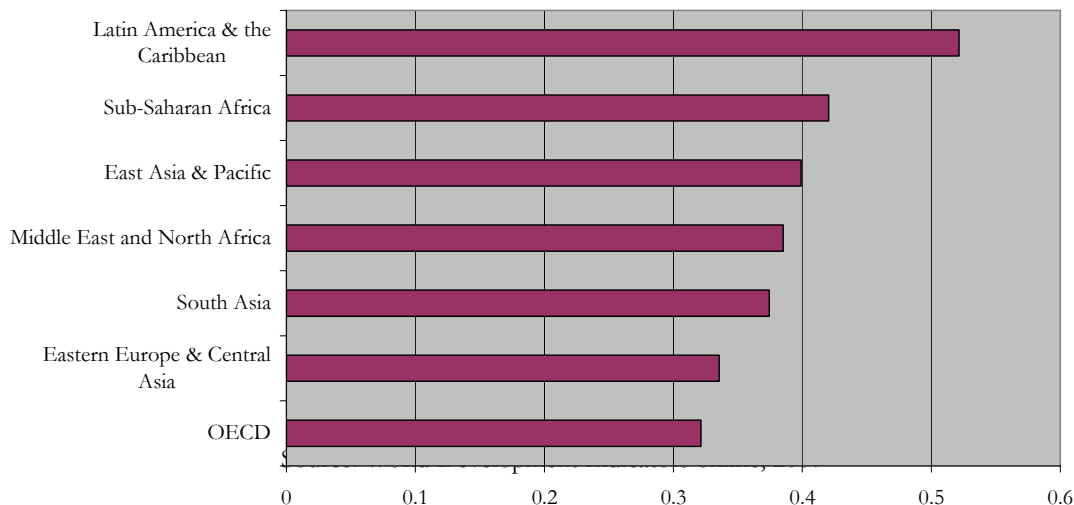
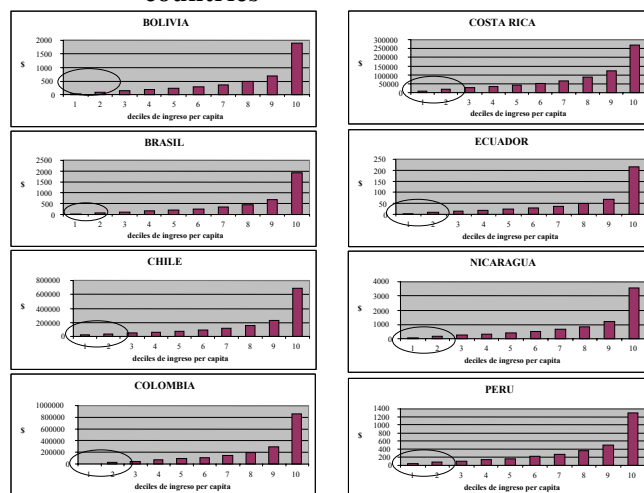


Figure 2. Income distributions by decile, selected countries *



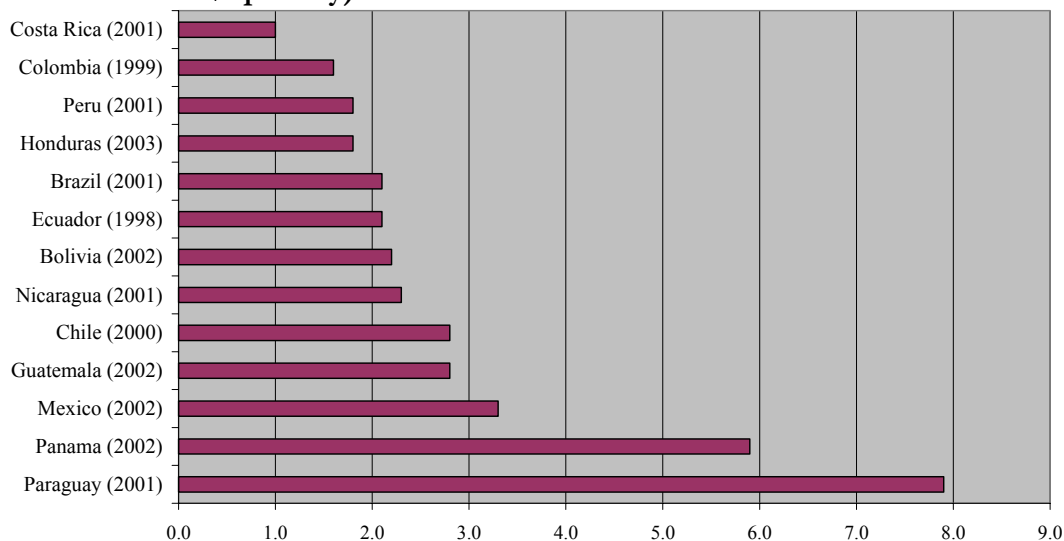
* Most recent year available.
 Source: CEDLAS, 2006.

The forces underpinning this situation are multiple and entrenched. A meaningful way to frame the analysis is with reference to the concepts of exclusion and informality—the very antitheses of cohesion and trust. Exclusion is a multi-dimensional process that affects the “functionings” and well-being of individuals and groups and tends to reproduce itself through discrimination, unresponsive institutions and in the market place. Exclusion can be “structural” or dynamic in nature and subject to change, depending on processes and developments in governance, public policy, and the economic, social and cultural spheres.

The “structural” view of exclusion links it to innate factors over which the excluded have little or no control, including in particular ethnic-racial origins and traits such as gender, age, physical ability, and place of residence (since poverty is often linked to geographic isolation).

Ethno-racial exclusion potentially affects a vast segment of the population of the region, including more than 40 million indigenous persons and approximately 150 million persons of African descent. As can be seen in Figure 3, in 12 of the 13 countries for which information is available, the people of indigenous and African origin are overrepresented among the very poor. In seven countries, the incidence of extreme poverty among these groups is more than twice that in the rest of the population. According to the UNDP's *Human Development Report 2001*, in Brazil the total population in poverty declined by five million between 1992 and 2001, but among those of African descent, the number of persons living in poverty rose by 500,000. Unemployment is greater and wage levels are lower in this group than in the overall population, and politically, the group is underrepresented.⁷

Figure 3. Incidence of Extreme Poverty among Indigenous and Afro-Descendants as a Multiple of the Incidence in the Rest of the Population (poverty line of US\$1 per day)



Source: ECLAC (2005a)

Ethno-racial factors, therefore, are key traditional correlates of exclusion. To these must be added more recent, dynamic factors, including rapid economic change. Globalization can alter employment prospects in some industries and is not necessarily favorable to Latin America with its relatively high labor costs and low levels of technology, although demand for raw materials and energy, from China for example, may raise employment in the corresponding sectors.

Labor markets have been an important source of fragmentation and inequality in the past 15 years. Unemployment grew during this period, especially in the Southern Cone and Andean countries, while the average real wage tended to decline.⁸ Wage disparities between workers

⁷ For example, Brazilians of African descent account for 45 percent of the population, but in 1995-1999 occupied only 15 seats in the national congress—an improvement over the previous period, where they occupied four seats, according to IDB data.

⁸ Average wages (adjusted for purchasing power in U.S. dollars) remained constant or declined in most countries in the region in the 1990s, falling in Central America, the Andean region, and Mexico (Duryea, Jaramillo, and Pagés, 2003). The countries of the Southern Cone in which the average wage increased are also those where there were increases in unemployment.

of different educational backgrounds widened in the context of liberalization and technological change that accentuated the differences in relative demand for skilled and non-skilled workers. The percentage of workers who are paid “poverty wages” in the informal sector (US\$1 per hour or less) is high, ranging from 40 percent in Chile, Costa Rica, Mexico, Panama, and Uruguay to more than 70 percent in Central America and Bolivia (Duryea, Jaramillo, and Pagés, 2003). By contrast, in some settings in East and Southeast Asia during the same period, differences in wage levels fell in a context of much more dynamic growth (Avalos and Savvides, 2003).

The types of jobs that markets have created and the limited “labor market capability” of the large pool of people, whose access to opportunities for human development is low, have conspired to shift employment to unstable, low-productivity activities in the informal sector where workers lack health care coverage, social security and job protection. The absence of economic security and the lack of control over events that shape individual welfare, in turn, generates disaffection and the perception of being treated unjustly, which can lead to violence and crime and, clearly, is not conducive to interpersonal trust.

The large size of the informal sector in the region’s economies implies that important parts of society are cut off from the mainstream, functioning outside the scope of official institutions and formal markets. People in this condition may seek refuge in niches that at times may operate like “independent nations” with their own territory, norms and systems of government, as observed in some *favelas*. Informality as a source of exclusion is an intrinsic characteristic of these groups: their labor relationships, property and housing, marital arrangements, and, in the case of undocumented individuals, their very existence are informal.

In this situation, the prospects and “satisfaction” of the majority corresponding to the lower 60 or 70 percent of the distribution of income are highly constrained. This is a source of disillusionment, darkening people’s perception of the scope for moving up.

Perceptions are influenced by other considerations, too. As is widely known, there are gaps between citizens’ rights granted by law and the countries’ *de facto* ability to deliver basic services and such goods as impartial justice accessible to all. There is a discrepancy between the much invoked, but theoretical, condition of representative democracy and transparent rules of the game and the reality of a context of opaque dealings involving special interest groups, hidden powers, and governments unable or unwilling to intervene. The “symbols” holding together the polity under these conditions are not conducive to cooperation, reciprocity and respect. They are damaging to social cohesion with its need for a normative framework that provides for accountability as well as rights and obligations, while seeking to engender equal opportunities for all.

Symptoms of low levels of solidarity and cohesion are found in the tax systems of the region, which are relatively weak when compared with those of industrialized economies (Table 1). Whereas in a sample of large OECD countries, public revenues amounted to some 37 percent of GDP in recent years, in Latin America they barely reached 20 percent. Also, Latin American countries experience difficulty in raising revenue through income and property taxes, which are more progressive than indirect levies or taxes on goods and services. Income-tax revenues as a share of GDP in Latin America are a third of the level recorded for G-7 countries, as seen in Table 1.

Table 1. Tax Revenue (percent of GDP)

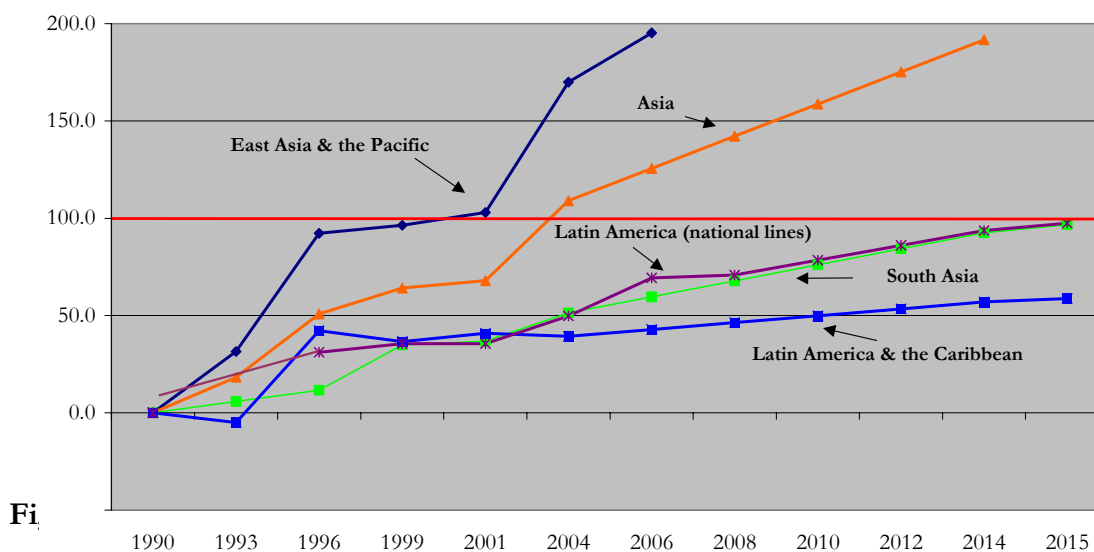
	Total tax revenues	Income tax	Taxes on goods and services	Taxes on foreign trade	Social security contributions
LAC average	19.78	4.78	8.82	1.79	4.39
G-7 average	36.99	13.54	9.51	0.08	10.54

Source: International Monetary Fund (2001).

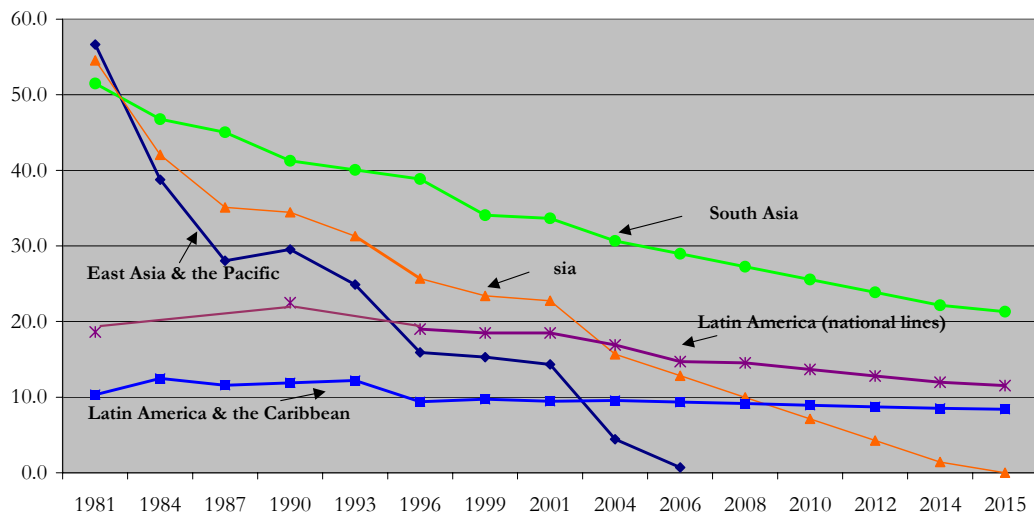
Taxes and transfers have a significant effect in lowering income inequality (measured by Gini coefficients) in the OECD, but in Latin America the redistributive effect of taxation is low. Taxes and transfers are key factors in a vicious circle in which insufficient contributions lead to weak social institutions, which in turn leads to inefficient spending, low quality services, and citizen dissatisfaction. The inefficiencies on the spending side (which, arguably, are a factor in the lack of trust in institutions mentioned above) can then be invoked as an argument against paying taxes.

Latin America, as is widely known, has made important strides in many aspects of development in recent decades. Significant advances occurred in relation to macroeconomic and price stability, the capacity of economic management institutions; the reform of sector policies and rules, and more recently in relation to economic growth performance (2006 was the fourth consecutive year with rising per capita growth); and poverty reduction. Indeed, it now seems that the Millennium Development Goal of halving extreme poverty by 2015 compared with the 1990 level may be met for the region as a whole (Figure 4a) and has already been met as of today in Chile and Brazil (ECLAC, 2007).⁹

Figure 4a. Progress toward Attainment of MDG1 (extreme poverty reduction, 1990-2015, percent)



⁹ According to the most recent projections available, the “poverty” Millennium Development Goal (“MDG1”) seems reachable in 9 out of 17 countries analyzed (ECLAC, 2007). There remains, therefore, an important group of poorer countries that have not yet been able to place themselves on the virtuous development path that is needed for poverty reduction at the rate implied by the Goal.



Source: World Bank, PovCalNet Database and CEPAL, Social Panorama of Latin America, 2006.

Note: Extreme poverty is defined as US\$1 per capita per day. For Latin America, projections using national poverty lines are also shown, and the assessments in the text as to the scope for achieving MDG1 regionally and by country are based on national lines. After 2001 (2006 in the case of Latin America [national lines]), the data shown are projections based on observations accumulated during the period 1981-2001 (1981-2006 in the case of Latin America [national lines]). Sources: The World Bank, PovCalNet Database and ECLAC (2007).

The counterpoint to this situation is the reality of continued major challenges as well as shortfalls relative to Asian comparators, where savings, investment, and growth are much higher, as are poverty reduction rates (starting from higher initial levels of poverty) and progress toward the identified Millennium Goal (Figure 4b). The challenge, clearly, is to reduce inequality and to generate sustained participatory, inclusive and poverty-reducing growth. The analysis below suggests that greater levels of interpersonal trust and cohesion would help.

Measuring Social Capital and Social Cohesion

The literature on social capital and social cohesion offers a variety of potential definitions and indicators for measuring the concepts, as seen above.¹⁰ Our approach in this section is to construct an index of social cohesion that incorporates measures of social capital and the distribution of opportunities that conform reasonably well to our definition of these concepts and for which we are able to find data for Latin America.

The two dimensions of social capital and the distribution of opportunities are in line with the definition of social cohesion set forth above: *a capacity for cooperation and solidarity in society based on an equitable distribution of opportunities to participate in economic, social and political life as well as trust*

¹⁰ On social capital, for example, see Rothstein and Stolle (2002), and Rosemberg (1956), for generalized measures of trust. A case of widespread use and replication of trust is Putnam's index of "civiness." In *Making Democracy Work*, Putnam et al. (1993) use four indicators to measure the strength of civic involvement: associational life (number of voluntary organizations); incidence of newspaper readership; voter turnout at referenda; and the size of preference votes at elections. In *Bowling Alone*, Putnam (2000) introduces a composite index measuring the degree of people's involvement in a range of civic and political activities, such as voter participation, involvement in civic groups and associations, participation in religious organizations, philanthropy, etc. Knack and Keefer (1997) use two indexes to measure social capital, where CIVIC tries to capture the level of civic cooperation and TRUST is Rosemberg's measure. Narayan and Pritchett (1999) calculate the social capital index as a weighted average of answers to questions measuring membership in various groups, the characteristics of these groups, and general trust-related attitudes.

in societal rules, institutions and fellow citizens. In the composite index that we propose, each of the two dimensions is measured by several variables, assessed in the form of either perceptions or hard data, as indicated in Table 2.

Table 2: Components of the Social Cohesion Index

Social cohesion	Social Capital	Compliance with the law
		Interpersonal trust
		Trust in public institutions
	Distribution of Opportunities	Poverty incidence
		GINI coefficient
		Size of the middle class
		Educational GINI
		Intergenerational mobility

The *social capital dimension* is assessed through three indicators that are believed to influence the capacity for cooperation at the macro and micro level. When citizens place trust in the law and established public institutions, they will be more inclined to articulate their demands through formal institutions and to allow institutions and the law to manage potential disagreements and intermeditate the adoption of policy solutions to pressing social problems.

Conversely, when citizens fail to trust in other citizens and in rules and institutions, they will be more readily inclined toward conflict, less disposed to accept the sacrifices entailed by policy change, and will have greater difficulty in reaching the agreements necessary to increase the supply of public goods. In addition, when interpersonal trust and trust in laws and institutions are weak, transaction costs are likely to be high, spontaneous cooperation relatively uncommon, and conflicts frequent between individuals, firms and organizations whether in the economic, political or social realm. The elements of the social capital dimension of the index of social cohesion attempt to capture these effects.

The *distribution-of-opportunities dimension* focuses on structural socioeconomic conditions that affect people's ability to enjoy opportunities in the economic, social and political sphere.

In our construct, the incidence of poverty is the first indicator of this dimension: the larger the share of the poor in the population, the greater the hypothesized extent of exclusion and the risk of alienation and polarization.

Further indicators of the opportunities dimension are the Gini coefficients of income and education (because high levels of poverty and income and educational inequalities imply low levels of integration for a large share of the population), and the size of the middle class. As suggested by Easterly (2001) and other sources, a larger middle class is expected to increase the possibilities for societal cooperation in the provision of private and public goods, raise the scope for investment in human capital, and lessen the likelihood of distributional conflict and instability.¹¹

The final indicator of the opportunities dimension is a measure of intergenerational social mobility, or the extent to which children have the opportunity to achieve a higher

¹¹ The size of the middle class is the percentage of total income earned in the middle deciles (three to seven) of the population.

socioeconomic status than their parents. The measure, compiled from household surveys, assesses the degree to which parental education determines the educational level attained by children.

The index should be considered as an exploratory exercise. An ideal approach to developing an index of social cohesion would require an unambiguous definition, a theory that provides a basis for linking individual dimensions to the broader concept, and conceptually valid and reliable indicators for each of the dimensions. The second and third of these requirements cannot be fully met because of limitations in the available data¹² and the limited state of empirical and theoretical knowledge in respect to the relative weight and interactions between the different components. For a detailed conceptual and methodological discussion and a description of the individual indicators, the reader should turn to the appendices.

Social Capital, Social Cohesion and Development Outcomes

In this section the social cohesion index is used to examine the degree to which social cohesion is connected with the capacity of countries to promote economic growth, apply new technologies, implement effective development policies, and maintain a stable and predictable political and policy environment. The analysis is limited to bivariate correlations, thus it points only to associations rather than demonstrating causal relationships.

Relatively few empirical studies have examined the relationship between the broad concept of social cohesion and development outcomes. However, a fairly large number of studies have investigated the effects on development of related concepts and measures, such as social capital, inequality, ethnolinguistic fractionalization, crime and violence, and political instability and social conflict.

Recent interest in the development significance of social capital has been fueled by Putnam and colleagues' influential work examining the effects of social networks, norms and trust on the effectiveness of local government and economic performance in Italian regions (Putnam, Leonardi and Nanetti, 1993; Helliwell and Putnam, 1995). This research and other studies building upon it hypothesized that higher levels of trust and stronger civic values contribute to higher rates of growth by lowering transaction costs (as noted earlier), increasing trust in government, raising investment rates, making government more efficient in providing public

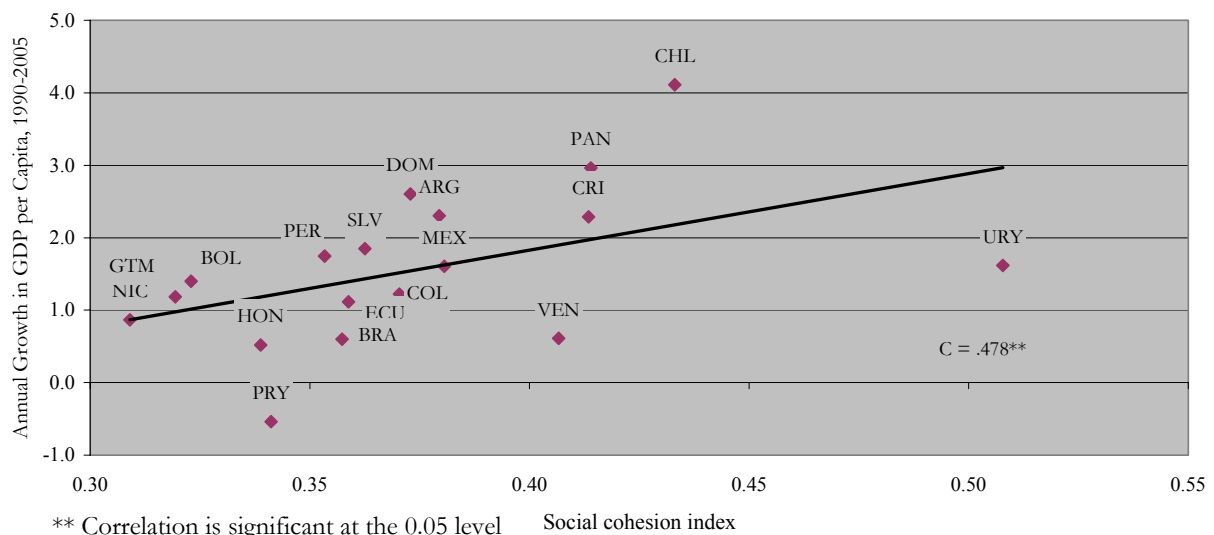
¹² For example, it must be assumed that the opportunities dimension of the social cohesion index is affected by individual and group characteristics such as race, ethnicity, religious affiliation, gender and family origins. Many of the available proxies for some of these traits, such as the degree of ethno-linguistic fragmentation, however, are not without flaws and for this reason have not been used in the present exercise. The measures for ethno-linguistic fragmentation that have been used in previous empirical studies are out of date and of doubtful reliability, given Latin America's considerable demographic changes in the past decades. Also, if a measure related to discrimination and exclusion based on ethno-linguistic background were to be included, it would need to be more subtle than just one focused on the ethnic composition of the population. To reflect the degree of exclusion it would need to account for the extent to which such distinctions are in fact correlated with disadvantages in respect to education, income, employment, and distrust between persons. Otherwise the index would risk being overly deterministic, presuming that societies with comparatively high degrees of ethnic fragmentation are doomed to be non-cohesive, with no allowance for the possibility that higher levels of integration and inclusion could be fostered through public action (such as by ending legal discrimination, affirmative action policies, and progressive public spending on education, health care and social protection) or efforts of civil society.

services, increasing cooperation in the provision of public goods, and enhancing governmental accountability.

Several cross-national empirical studies have found a positive influence of social capital variables on economic growth and related development outcomes (Knack and Keefer, 1997; Zak and Knack, 2001; La Porta et al., 1998; Putnam, 2000; Knack, 2000 and 2001; Helliwell, 1996a and 1996b). For instance, Knack and Keefer (1997), in their cross-national study of 29 advanced and developing economies, found a positive link between interpersonal trust and economic performance as well as between trust and indicators of governmental efficiency and corruption. Working with a larger sample of countries, Zak and Knack (2001) found that the association with growth became substantially more robust to changes in time period and in the specification of control variables. But, other studies, using different samples, some restricted to OECD countries and Asian economies (Helliwell, 1996a; Knack, 2001), and others restricted to Canadian provinces and US states (Helliwell, 1996b), failed to find a relationship between trust and/or group membership and economic growth. On the whole, there is some empirical support for an association between social capital and growth when social capital is operationalized in terms of measures of trust and civic values, but not when organizational membership is used (Knack, 2001).

The second dimension of the social cohesion index—equality in the distribution of opportunities—has also been linked to economic performance. Several different channels of influence of inequality on growth have been examined, including increased pressures to adopt redistributive and economically inefficient fiscal policies (Persson and Tabellini, 1994; Alesina and Rodrik, 1994; Bertola, 1993; Alesina and Perotti, 1994), increased socio-political instability (Alesina and Perotti, 1994; Perotti, 1996), lower rates of individual investment (Perotti, 1994), lower domestic demand (Murphy, Shleifer and Vishny, 1989), greater incentives to engage in rent-seeking activities (Ben-Habib and Rustichini, 1991; Fay, 1993) more uncertain property rights (Keefer and Knack, 2002), and weaker institutions (Easterly, Ritzen and Woolcock, 2005). Based on these studies, empirical evidence appears to lend greatest support to inequality’s effects on growth being channeled through higher levels of political instability, lower rates of investment, higher levels of rent-seeking and lower cooperation in the provision of public goods (Clarke, 1993; Easterly and Rebelo, 1993).

Figure 5. Growth versus Social Cohesion



Source. Authors' compilation. Growth figures calculated from World Bank, World Development Indicators.

Drawing on our index of social cohesion, and focusing on a sample of 18 Latin American countries, we find that the rate of per capita economic growth between 1990 and 2005 has tended to be higher in those countries with larger values on the social cohesion index (Figure 5). The correlation is 0.48 and is significant at the .05 level. Between the two dimensions of the index, the distribution of opportunities sub-index appears to be more closely associated with growth performance (.48 and significant at .05 level). The social capital index, by itself, is positively correlated with growth (.38) but, at least for this 18-country sample, the relationship is not statistically significant.

Social cohesion may not only contribute to higher growth rates, it also is likely to affect its equity and sustainability in the face of external shocks, and the duration and social impact of economic downturns. In addition to the importance of *human* capital, which is captured in the first component of the social cohesion index, *social* capital is key—and, in this respect, civil society, political participation and trust in public institutions are vital. In times of crisis the capacity of society to organize itself (on the basis of high levels of social capital) produces externalities that can be essential for attending to the basic needs of the population and favors the chances for an economic recovery.¹⁴ Lower levels of societal polarization and higher levels of social solidarity and trust in representative institutions lowers the risk of distributive struggles and increases the possibilities that social groups will be able to reach agreement on sharing the costs of policy adjustment, thereby making a soft landing more probable.

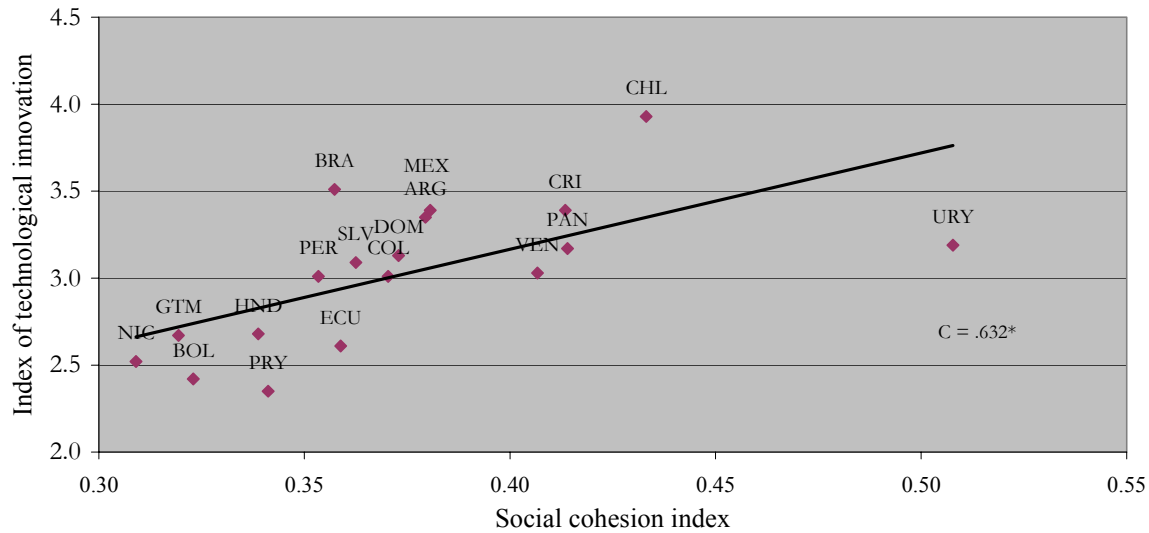
A likely channel between social cohesion and growth is its effects on the capacity for societies to incorporate new technologies and innovate. Cohesive and trusting societies provide broader opportunities for advanced education, higher-quality schools and higher incentives for individual investment in developing job skills. In addition, as seen above, to the extent that social cohesion lowers policy uncertainty and enhances the security of intellectual and physical property, it is also likely to foster higher rates of investment in new technologies.

In fact, an index of technological innovation¹⁵ (one of the sub-indices of the Global Competiveness Index published in the World Economic Forum's *Global Competitiveness Report*), appears to be higher in those countries with higher levels of social cohesion (Figure 6). If social cohesion contributes to better investment in human capital, more efficient incorporation of technological advances, and the growth of research and development capabilities, it also will tend to promote greater responsiveness to the demands and opportunities of globalization. Both the social capital and distribution of opportunities sub-indices are positively correlated with the technology index but, with respect to the social capital index, the correlation is not statistically significant (.10 level of significance).

¹⁴ See Kliksberg (2006) for an analysis of the role of volunteer action.

¹⁵ This index aggregates measures assessing countries' innovative capacity, capacity to absorb technology transfers and level of communication technology. For more information see Appendix 2.

Figure 6. Technological Innovation Capacity versus Social Cohesion



*Correlation is significant at the 0.01 level

Source: Authors' compilation. Index of technological innovation from World Economic Forum (2006).

The lower capacity for technological innovation in Latin America is evident from the fact that the proportion of researchers in the workforce is significantly lower than in advanced countries. The available data also show that this gap is growing. The number of researchers per thousand persons in the economically active population increased less than 10 percent between 1995 and 2003. In the same period, the rate of increase was more than 20 percent in developed countries. In China, the number of researchers is growing three times faster than the labor force as a whole (IDB, 2006).

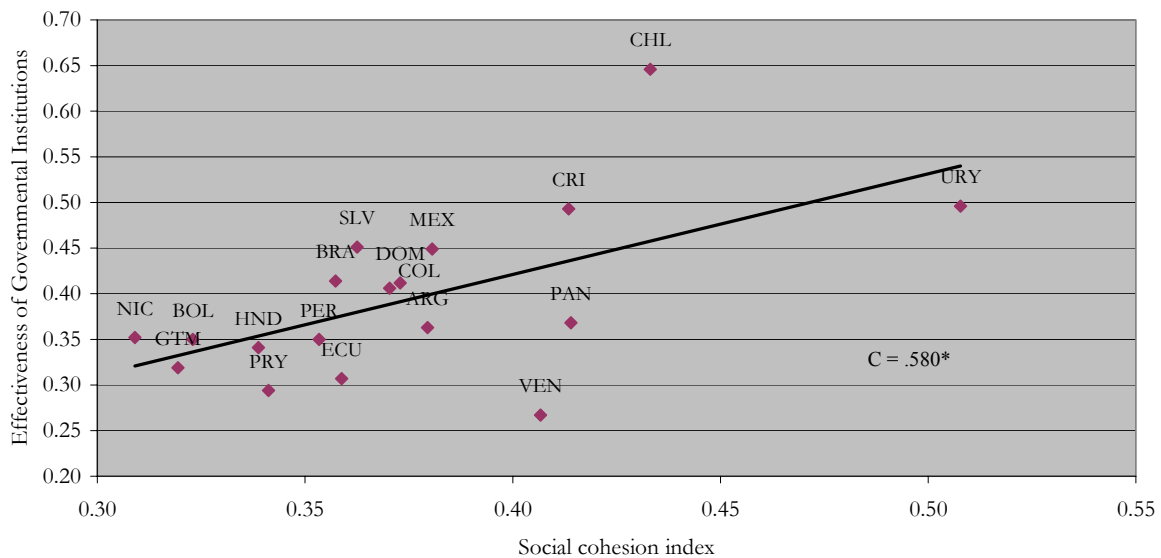
In contrast to more advanced countries, where the majority of researchers work in the private sector, in Latin America they are mainly employed by universities and public institutes. However, in Brazil and Mexico, for example, the proportion of researchers employed by the private sector is rising rapidly. The level of investment in research and development (as a percentage of gross domestic product) also increased in these two countries. In Brazil, for instance, investment in research and development is approximately one percent of GDP. This contrasts with the declining trend observed for most countries in the region.

As previous studies have demonstrated, high levels of social cohesion should also be reflected in the greater efficiency of government institutions and policymaking processes. More trusting and associative societies are also likely to have more effective public institutions because they will tend to be characterized by higher levels of political participation, stronger norms of civic cooperation and more efficient vertical accountability mechanisms. Fragmented societies, characterized by internal divisions and low levels of trust face larger constraints on government decision-making than more cohesive societies. When there are a multiplicity of groups with sharply conflicting interests seeking to influence public policy and public institutions for their own benefit, transaction costs are increased, rent-

seeking behaviors become more prevalent, and governmental institutions are likely to be less efficient.

An aggregate measure of the effectiveness of governmental institutions is found to be closely correlated with the social cohesion index (Figure 7). The social capital and distribution of opportunities sub-indices are associated in the same degree as the overall social cohesion index with this measure of governmental effectiveness.

Figure 7. Effectiveness of Governmental Institutions versus Social Cohesion



*Correlation is significant at the 0.05 level

Source: Authors' compilation. Index of effectiveness of governmental institutions compiled by authors on the basis of data from Kaufmann, Kraay, and Mastruzzi (2003), IDB (2005b), and Latinobarómetro (2006).

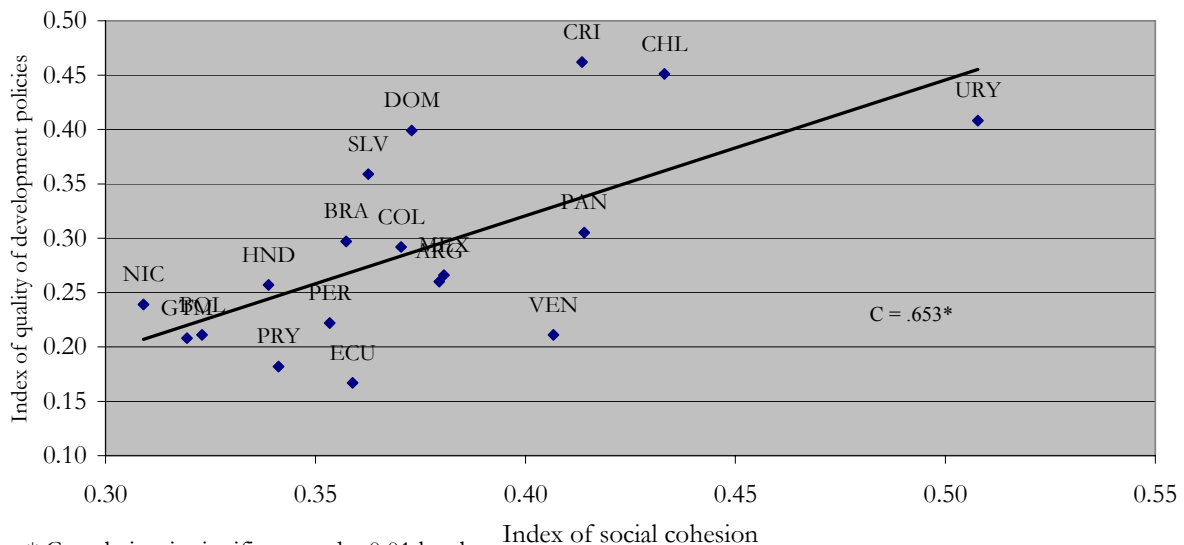
Ineffective institutions and inefficient decision making often result in poor-quality development policies. Regardless of its particular contents, for a public policy to be effective it must meet a number of requirements (IDB, 2005b). Policy must: 1) be stable, meaning it must be consistent over time; 2) be flexible enough to adjust to shifting contexts; 3) take into account in its design the requirements for implementation and be consistent with other policies in the same area; 4) be implemented effectively; 5) serve general public interests; and 6) be efficient in respect to the allocation of resources. Often how much is spent is less important than how the spending is done.

All of the above assumes that the persons involved in making decisions will be able to reach inter-temporal agreements on the core elements of state policy. Inter-temporality assumes reasonable stability in the identification of a country's development objectives, which implies the absence of frequent and dramatic changes in the composition of the government and the congress and a limited degree of social and political polarization. Obtaining durable agreements also requires a considerable capacity to forge consensus, which is facilitated when the elements of society feel that they belong to the same community; that is, when society is cohesive.

The implementation of public policies and the advance of a country towards higher levels of well-being require it to have an ability not only to generate resources but also to be able to spend them efficiently. Limitations with respect to budgetary policymaking and management are among the most important constraints faced by low- and middle-income countries. Revenues collected by countries are low, and a significant share of revenues is typically allocated inefficiently, whether as a result of inefficient administrative structures, poor policy design or poor implementation, or because resources are diverted to other purposes. Fragmented societies with low levels of trust are more prone to competitive rent-seeking given the greater focus on group interests rather than common interests and the weakness of civic norms and vertical accountability as constraints on opportunistic behavior.

Thus, we find that levels of social cohesion are associated with an index of the quality of development policies, comprised of measures of the efficiency of public policies and the extensiveness of governmental corruption (Figure 8). This index is highly correlated with both sub-indices of the social cohesion index, supporting the notion that both social polarization (divisions between groups) and weak norms of civic cooperation have a negative impact on the quality of public policies.

Figure 8. Quality of Development Policies versus Social Cohesion



* Correlation is significant at the 0.01 level

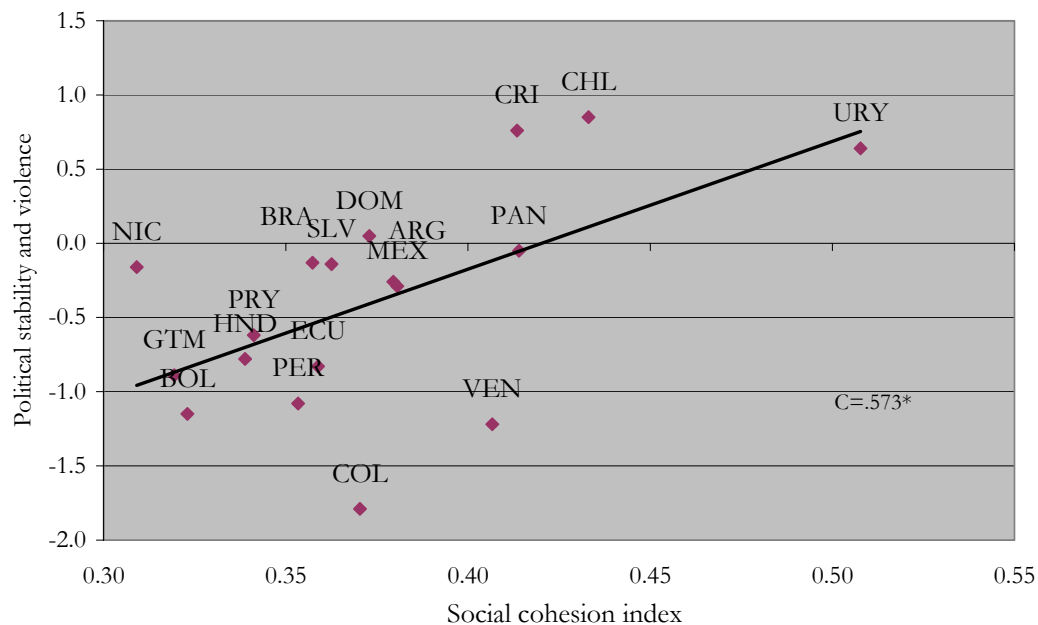
Source: Authors' compilation. Index of quality of development policies compiled by authors on the basis of data from Latinobarometer (2006), World Economic Forum (2006), and Kaufmann, Kraay and Mastruzzi (2003).

Taxation is one area likely to be affected by the extent of social cohesion, as discussed earlier. The willingness to pay taxes depends considerably on the benefits that people expect to receive in return and the strength of ties to the community. Citizens of countries with high levels of social cohesion are likely to be more willing to contribute to the common pool of public resources, since they expect to share in the benefits of public programs and investments funded by them and because they feel a sense of obligation to the community in which they live. In weakly cohesive societies, taxpayers may resent the situation whereby an important share of public resources goes to groups with which they do not identify.

High quality public policies require technical agencies that are able to design and properly implement policy decisions. This capability implies an independent and professional civil service in which civil servants are hired and promoted on the basis of merit rather than partisan political connections. Only in this context can an effective and neutral public administration be assured. An active and organized citizenry that raises the demand for effective government can facilitate the transition toward a more professional bureaucracy.

Another potential channel between social cohesion and growth is political instability and social conflict. Some empirical studies have shown a positive association between economic and social inequality and distributional conflict and political instability, which in turn affects growth (Alesina and Perotti, 1996; Alesina and Perotti, 1993; Perotti, 1996). Political instability negatively affects the predictability of the policy environment, the rate and quality of investment, the time horizons of political actors, and the sustainability of public policies. We find that an index of political stability and violence is closely associated with the social cohesion index (Figure 9).

Figure 9. Political Stability versus Social Cohesion



*Correlation is significant at the 0.05 level

Source: Authors' compilation. Index of political stability and violence from Kaufmann, Kraay and Mastruzzi (2003).

Thus, this exploratory analysis of the development significance of social capital and social cohesion in Latin America has provided some empirical validation for the need to focus attention on these concepts for purposes of both academic research and policy-making. The findings presented, as well as those in the existing literature, highlight the need for a balanced and integrated approach to development that entails fostering the productive potential and inclusiveness of all citizens.

Policy Implications and Final Considerations

The topics of social capital and social cohesion appear with increasing frequency in the debate over welfare and development, how to build inclusive societies and how to promote equitable and sustainable growth. The analysis presented in this paper confirms some of the findings of previous works and points to linkages between the degree of cohesion and key capacities, such as the ability of society to achieve dynamic growth, adapt and flexibly respond to market demands, innovate and incorporate new technologies, implement policies, and maintain a stable and predictable political and policy environment.

How then to promote social capital and social cohesion? Conceptually, there is a difficulty that stems from the lack of an agreed actionable and operational definition of the two. In practical terms, there is the problem of setting priorities (that is, which of the different dimensions and determinants to address at particular points in time) and the much greater challenge of designing and implementing policies and processes that are capable of changing realities that may be entrenched and have shaped society for many years.

Because each country's history and circumstances are unique, general prescriptions are unlikely to work. The task is to set in motion virtuous cycles that foster the capacity to reach consensus and strengthen the community by promoting solidarity and inclusion. From the analysis in this paper, the reduction of inequality, the promotion of economic opportunities and the deepening of representation and democratic governance are all-important. Each of these aspects is briefly taken up below.

Reduce inequality and increase opportunities: Sustained inequality (as shown in this paper) can produce political instability, conflict, rent-seeking, and lower levels of investment and cooperation in the provision of public goods than would otherwise be the case. One of the main priorities Latin America faces, therefore, is to readjust the distributional structure of income and opportunities among individuals and groups. This means shrinking income and education gaps, raising labor market capability, reducing poverty, expanding the middle class, and creating conditions for social mobility to occur.

To reach these objectives, the region must invest in human capital, concentrating in particular on the groups with the largest gaps in access, without neglecting the workforce's training and schooling needs at all levels. Investment in more competitive educational systems will facilitate opportunities for participation and upward mobility, especially for the young, and should dampen the incidence of violence and crime.

The region also needs to make its labor markets more flexible and promote job creation as part of a strategy to improve the response capacity to ever-evolving market realities and needs. The challenges here include creating the conditions needed for "good" jobs to arise and be filled (to reverse the shift of employment to low-productivity activities in the informal sector) and expanding social protection systems, insurance schemes and safety nets for those out of work or working "informally" in low-paying jobs.

The greatest challenge of all, however, lies in overcoming the forces and processes that reproduce exclusion. The task is to achieve equality in access and opportunities for excluded groups by bringing those groups into the political, institutional and community structures

that make the decisions affecting their prospects. The envelope of measures just identified will help. But, in the end, this is about more far-reaching transformations that focus on rights that need to be respected, citizenship that needs to be deepened, social guarantees that need to be provided, and a new social contract that needs to be forged.

Improve solidarity: The elements to be addressed in new social contracts include solidarity and redistributive equity, both of which need to be given consideration in the next round of fiscal reforms. Over the last two decades, fiscal reforms have largely focused on improving administration and making tax structures simpler, more neutral and better suited to international economic integration. Issues of redistributive equity have mostly been left to other policy instruments. They need to be taken up going forward. To improve the equity and revenue-raising potential of tax systems, countries should re-assess the distributive effects of their systems; increase direct taxation and revenue mobilization; improve horizontal equity; and tie tax policy to citizen benefits, with a special focus on expenditures that reach the poor.

And finally, transform governance: It emerges from the analysis in this paper that social capital and social cohesion cannot be de-linked from citizenship and truly representative democratic processes and institutions. Some of the aspects of interest here include the notion of equality under the law and the administration of justice, and transparent rules that are conducive to society-wide bargaining and participation. Thought needs to be given to the ways and means to generate capacity to reach inter-temporal agreements, keep clientelism at bay, and formulate and apply state policies (sometimes called national projects) with a long-term focus.

Other aspects in the realm of governance include improvements in the quality of the institutions that serve the population as well as increases in the quality and coverage of services and public goods that are being delivered so as to make it possible to reverse the situation of rampant distrust in public institutions that is documented in the region's opinion surveys.

To conclude, it is difficult (indeed, by the analysis of this paper, quite probably impossible) to achieve equity, dynamic and sustainable growth, and "development" as commonly understood under conditions where inequality is pronounced and distrust is the norm. Social capital and social cohesion can come to the rescue and lend a hand in the pursuit of development and welfare widely shared.

APPENDIX 1

Methodology Used in the Construction of the Social Cohesion Index

The social cohesion index proposed in this document is composed of two components: “distribution of opportunities” and “social capital.” Each of these components are constructed on the basis of several indicators, following the definition of social cohesion and of these separate components as set forth in the main body of the text.

The “distribution of opportunities” contains five indicators: the incidence of poverty, the Gini coefficient, the size of the middle class, the Gini coefficient for education, and intergenerational mobility. For this component an effort was made to also capture the inequities in opportunities among societal groups that can result from ethnic and linguistic divisions. However, the available indicators have the fault of being out of date and also of not adequately measuring the range of possible divisions that can contribute to conflict and unequal opportunities across groups. For these reasons it was decided not to include an indicator for ethno-linguistic fragmentation.

The “social capital” component is composed of three main indicators: compliance with the law, interpersonal trust, and trust in institutions. Trust in institutions is measured on the basis of responses to five questions from Latinobarómetro probing the extent of citizens’ trust in the judiciary and police (adjudication and enforcement), political parties and congress (representative institutions), and public administration (service delivery).

In calculating the social cohesion index, once the raw values were obtained from their sources (see Appendix 2), the intermediate variables were standardized on a scale of 0 to 1, based on the minimum and maximum theoretical values of each variable ($x = \frac{min}{max - min}$). After the variables were standardized, in those instances in which higher values of the variables signified less rather than more social cohesion, the normalized values were inverted ($1 - x$).

After the variables were standardized, the values of the two sub-indices were calculated, taking the average of the combined values for the variables. Finally, the social cohesion index was calculated as the average of the combined values of the two sub-indices. The hypothetical value of the social cohesion index and of each of its four sub-index components ranges between 0 and 1.

This effort complements other work that has been undertaken at the IDB to study and operationalize the concept of social cohesion. Jarque, Mejía, and Luengas (2005) developed an index based on four components: poverty, equality of opportunities, exclusion, and solidarity. These components and their underlying indicators share much in common with the index proposed in this document. A central criterion in the development of the index in the latter paper was the ability to study the evolution of the index over time and thus to be able to create it for the previous decade and in subsequent periods. It concentrates, therefore, on the use of objective and “hard” data that are available for multiple points in time and that will continue to be available in the future. The present document sets forth a more explicit definition of social cohesion whose underlying conceptual dimensions, including the positive externalities of social capital and the distribution of political opportunities, are difficult to capture fully using available objective indicators. Thus, the

present index makes significant use of perception data from surveys of public opinion and surveys of business executives to approximate the measurement of these concepts. Despite the differences in the specification of the index components and in respect to some of the indicators used, the correlation between the two indices is high (.78), the ordering of the countries according to the index is similar, though not identical, and the correlations with the development indicators are comparable.

The structure of this index is consistent with the definition for social cohesion that has been presented here. Indicators for measuring each one of the subcomponents were selected for conceptual reasons, as developed previously, and also for their availability and comparability among the 18 countries of the region included in the study.¹⁶ The most recent observations or multiyear averages have been used for the years 2001–2005. It was decided, consistent with the definition, that the same weight would be attributed to each of the index components. Thus, the individual indicators were indirectly weighted, because while five indicators were used for the distribution of opportunities component only three were used for the social capital index.

Future efforts in building an index of social cohesion should be oriented in three directions: (i) reflection at the conceptual level in respect to the structure and weighting of the subdimensions and indicators, (ii) the development of conceptually valid and reliable indicators that permit a more precise measurement of each one of the dimensions, and (iii) the validation of the index by extending the sample of countries to other regions of the world and producing the index for multiple points in time.

¹⁶ Caribbean island nations were not included because opinion polls comparable to the Latinobarometer have not been conducted there.

APPENDIX 2

Definition of the Variables and Sources of Information for the Social Cohesion Index

Social Cohesion Index

Incidence of poverty

Incidence of poverty is used in accordance with the poverty line for each country, as calculated by ECLAC. *Source:* The data on the incidence of poverty are taken from Jarque, Mejía, and Luengas (2005). The sources used in this study are ECLAC (2004b) and ECLAC (2002).

Gini coefficient

The Gini coefficient, as calculated in ECLAC (2003), is used; it refers to the inequality in equivalent income among individuals in a given country. *Source:* The data for the Gini coefficients are taken from Jarque, Mejía, and Luengas (2005).

Size of the middle class

The measurement of the size of the middle class comes from adding the total percentage of income earned in deciles 3, 4, 5, 6, and 7 of the population. *Source:* Socioeconomic Database for Latin America and the Caribbean (CEDLAS and World Bank, 2006).

Educational Gini coefficient

This indicator is calculated from the distribution of the level of schooling attained by the population over 15 years of age. *Source:* Jarque, Mejía, and Luengas (2005).

Intergenerational mobility

This indicator is based on information from household surveys. It compares some characteristics of parents and their children, focusing on adolescents between 16 and 20 years of age. *Source:* Behrman, Gaviria, and Székely (2001).

Compliance with the law

This indicator is based on the following question from Latinobarómetro: “Would you say that nationality (e.g. Chileans) comply with the law. Very much, to a fair degree, seldom, or not at all? The country means of the responses for 2002, 2003, and 2005 are averaged, standardized on a scale of 0 to 1, and inverted so that higher values reflect greater trust. *Source:* Corporación Latinobarómetro (2002, 2003, and 2005).

Interpersonal trust

This indicator is based on the following question in the Latinobarómetro: “Generally speaking, would you say that you can trust the majority of people or that one can never be too careful in dealing with others?” For 2003, 2004, and 2005, the proportion of all those surveyed who answered that “you can trust the majority of people” was calculated. The index is the average for the three years. *Source:* Corporación Latinobarómetro (2003, 2004, 2005).

Trust in institutions

This index averages the responses to the Latinobarómetro question about the trust that those surveyed have in a number of state institutions. “Please, look at this card and tell me, for each of the groups, institutions or persons mentioned in the list, how much trust you have in each: A lot, some, little, or none.” The index on trust in institutions incorporated responses for the following institutions: judiciary, police, congress, political parties, public administration. The index is calculated by averaging the country means for each institution for 2003, 2004, and 2005, averaging across the five institutions, standardizing this result on a scale from 0 to 1, and inverting this number so that higher values reflect greater trust.. *Source:* Corporación Latinobarómetro (2003, 2004, 2005).

Development Indicators

Economic growth

Average annual per capita GDP growth in the period 1990–2003. *Source:* *World Development Indicators* (World Bank, 2006).

Technology index

This indicator combines two to three sub-indices, depending on whether the country is considered a leader in technological innovation. For countries that are not, the technology index is comprised of sub-indices for innovation, capacity to absorb technology transfers, and information and communications technologies. The weighting for the first of these is 1/8, the second 3/8, and the third 1/2. These sub-indices are constructed from a combination of responses to questions in the Executive Opinion Survey and from “hard data” from a number of sources. *Source:* World Economic Forum (2006).

Effectiveness of governmental institutions

This index is based on three indicators.

Government effectiveness index

This measurement is a composite index of many of the available indicators for government effectiveness, including cabinet stability, bureaucratic quality (including the extent of red tape), and the level of waste in government spending. This aggregation of indicators from a variety of sources was created using a statistical technique known as unobserved components analysis. Some of the indicators are survey based, others based on expert assessments. *Source:* World Bank Institute (<http://www.worldbank.org/wbi/governance/data.html>) and Kaufmann, Kraay, and Mastruzzi (2003).

Efficiency of public policy

This indicator calculates the extent to which policy reflects a socially and economically productive use of scarce resources, based on two components. The first, “Waste in Government Spending,” is based on a question from the Executive Opinion Survey of the *Global Competitiveness Report* of the World Economic Forum. The second measures whether resources are focused on where they are most effective and comes from the State Capabilities Survey carried out by the IDB. *Source:* IDB (2005b).

Functioning of public institutions

This indicator is based on the average of all answers to the following question in the Latinobarómetro: “Generally speaking, what would you say your opinion is of the way public

institutions operate? Would you say that they work very well, well, all right, badly or very badly?” The indicator is calculated on the average values of the answers for each country, standardized on a scale of 0 to 1, considering a possible rating of answers from 1 to 5; the standardized score is then inverted so that higher numbers reflect more favorable opinions on the operations of public institutions. *Source:* Corporación Latinobarómetro (2005).

Quality of development policies

This index is made up of four indicators.

Government efficacy in reducing poverty and inequality

Based on the following question in the *Global Competitiveness Report, 2005–2006*: “In your country, the efforts of the government to reduce poverty and deal with income inequality are: 1 = ineffective, 7 = effective?” The indicator was calculated taking the average value of the responses for each country, standardized on a scale of 0 to 1. *Source:* World Economic Forum (2006).

Confidence that tax revenues are being well spent

Based on a question from the 2005 Latinobarómetro: “With regard to taxation in general, do you trust that the money raised by taxation is well spent by the state? Yes or no?” The indicator is the proportion of people who answered yes. *Source:* Corporación Latinobarómetro (2005).

Control of corruption

This is a composite index of many of the available indicators dealing with the control of corruption. Derived from a variety of sources, it was calculated using a statistical technique known as unobserved-components analysis. Some indicators are based on survey material, others on expert opinions. The World Bank indicator is standardized on a scale of 0 to 1, based on the minimum and maximum values found in the global sample of countries. *Source:* World Bank Institute (<http://www.worldbank.org/wbi/governance/data.html>). For a description of the indicator, see Kaufmann, Kraay, and Mastruzzi (2003).

Corruption among public officials

Based on the following question from the 2005 Latinobarómetro: “Imagine that the number of public officials in (your country) was 100, and you had to say how many of these 100 are corrupt. How many would you say were corrupt?” The indicator is calculated through the average proportion of public officials whom those surveyed considered to be corrupt, standardized on a scale of 0 to 1. *Source:* Corporación Latinobarómetro (2005).

Political stability and the absence of violence

This measurement combines indicators based on survey material and expert opinions. The World Bank indicator is standardized on a scale of 0 to 1, based on the minimum and maximum values found in the global sample of countries. *Source:* World Bank Institute (<http://www.worldbank.org/wbi/governance/data.html>) and Kaufmann, Kraay, and Mastruzzi (2003).

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