

# Philanthropy and Prosperity: Rebuilding Social Capital\*

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A requirement of my appointment to the Ontario Securities Commission, some two years ago, was that I sever all commercial and voluntary relationships, including various involvements with community-based organizations. While this (and other aspects of my current job) has led to a rather insular existence, it has also provided me with an opportunity to reflect, from a distance, on the relevance of the “voluntary sector” to our political and economic wellbeing.

I would like to share some thoughts on this subject and my focus will be on the concept of “social capital”—that is, the ability to create and sustain voluntary associations—and its relationship to prosperity.

First, let me sketch out some context for my thoughts. The concept of turbulence—sudden and massive shifts in assumptions and expectations—is well understood by participants in capital markets. It is less commonplace for those who toil in intellectual, political or social service markets. I believe this is changing in radical and challenging ways.

For example, in one of the most daring and provocative recent social discourses, *The End of History and the Last Man*,<sup>1</sup> Francis Fukuyama explored the remarkable process through which, to the surprise of most, democratic political systems and market enterprise economic systems have quite suddenly (from a historical perspective) become universal norms.

It is ironic that at the very moment when liberal democracy and market-driven economies have prevailed both ideologically and geopolitically, growing numbers of citizens in the western world are questioning (or, worse yet, apathetic about) the effectiveness of our public and private institutions. Evidence of this democratic disarray is abundant; its causes and remedies are less obvious. Such an inquiry is urgent for a variety of reasons.

Think of the challenges our market economies face. For example, Jeremy Rifkin, in his most recent book *The End of Work*,<sup>2</sup> argues that for the first time

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in history human labour is being systematically eliminated from the production process. The social transformation promised by technological innovation could as easily prove liberating as oppressive. Moreover, the idea of a society not based on work is so remote from any notion we have about organizing large numbers of people into a social whole that we are faced with the prospect of rethinking our social contracts. As Peter Drucker has noted, "the disappearance of labour as a key factor of production" is emerging as the key "unfinished business of capitalist society".<sup>3</sup>

A similar, perhaps related challenge faces us in the governmental sector, which most people would still view as having primary responsibility for dealing with social tasks in our society. Here, again, Peter Drucker refutes conventional wisdom, noting that while the bulk of the budget in every developed country today is devoted to "entitlements" (i.e., to payments for all kinds of social services), in each such society social problems are multiplying. "Government has a big role to play in social tasks—the role of policymaker, of standard setter, and, to a substantial extent, of paymaster. But as the agency to run social services, it has proved almost totally incompetent".<sup>4</sup>

While it is widely recognized that demands for social services now far exceed the capacities of public budgets, the typical response continues to be a policy debate that focuses on setting ceilings or streamlining services. The fact that social services continue to monopolize the definition of welfare is only beginning to be questioned.

One alternative approach to social policy would be to enable individuals and communities to attain their own ends in their own ways. Think, for example, of the proposed voucher systems intended to enable parents to obtain an education for their children without specifying how or where. To work, such programs require a high level of civic engagement. What frequently happens instead is that systems of social service replace community, rather than fostering it, forcing citizens to participate on the system's terms. This tends to diminish us in our own eyes by diminishing our sense of effectiveness.

A compelling argument can be made that professional services dominate and displace local competence and solidarity; that undue emphasis on people's needs obscures their abilities. Veteran community organizer John McKnight goes further, suggesting that community and social services are bound in a relationship mathematicians would call "inverse proportion": their sum is constant, so that as one waxes, the other must wane.<sup>5</sup> Thus the growth of the welfare state may have accelerated the decline of those very communal institutions it was designed to supplement.

Rifkin notes that "the globalization of the market sector and the diminishing role of the governmental sector will mean that people will be forced to organize into communities of self-interest to secure their own futures".<sup>6</sup> Certainly, the

net job-displacing impact of technology reinforces that requirement. This appears to be equally imperative in “Third-World” countries as they struggle to develop.

If, indeed, the market and public sectors are to play a reduced role in our daily lives, what will move into the power vacuum? Rifkin suggests that the choices are an increasing “outlaw subculture” or greater participation in the “third” (i.e., voluntary) sector. Drucker concurs, referring to a separate and new “social” sector. Curiously, political leaders as disparate in their ideology as Presidents Reagan and Carter both spoke extensively of the need to foster a spirit of individual generosity and a renewed sense of communal values.

These concepts are not new. When Alexis de Tocqueville visited the United States in the 1830s, he saw Americans’ propensity for civic association as the key to their unprecedented ability to make democracy work. Voluntary association forces people to assume responsibility for a small portion of the public business—business that affects their immediate self-interest and is therefore important to them, but that nonetheless compels them to interact with others and thus gradually see beyond their immediate self-interest to the common good.

Social scientists confirm the current accuracy of de Tocqueville’s observation—that the quality of public life and the performance of social institutions are powerfully influenced by networks of civic engagement which encourage the emergence of social obligation and trust. By analogy with physical and human capital, such norms and social cohesion may be viewed as “social” capital.

Returning to the example of education, there is widespread evidence that successful schools can be distinguished less by their curricula or teaching staffs than by the degree to which they are embedded in a broader fabric of supportive families and communities. So, too, has informal social control, through community norms and networks, proven to be more effective than formal law enforcement in reducing criminal behaviour or than public programs in reducing urban poverty. Not surprisingly, the norms and networks of civic engagement also powerfully affect the performance of representative governments.

Social epidemiologists have found that people with few social ties face greater risks of illness and mortality even when socio-economic status and physiological risk factors are taken into account. In other words, joining is good for your health!

I will return to the economic importance of social bonds later in this article. Suffice it for now to note that research on the varying attainments of different ethnic groups consistently points to the importance of social networks. So, too, has research on the sociology of economic development highlighted the role of social networks of collaboration among firms and among workers, investors and entrepreneurs, as undergirding successful industries.

Given all this evidence, it is not surprising that politicians of all stripes, and social commentators as otherwise pessimistic as Rifkin, increasingly find their solace in a renaissance of civic participation. Regrettably, this comfort may be little more than wishful thinking. Current trends do not augur well for such salvation.

Whether one measures direct engagement in politics and government, organizational membership or voluntary activity, the picture which emerges in our society is one of dramatic social disengagement over the last two decades.<sup>7</sup> This is so despite the fact that average levels of education—the best predictor of individual civic participation—have risen sharply throughout this period.

Robert Putnam provides us with some whimsical evidence, along with a more traditional analysis of social disengagement. Between 1980 and 1993, the total number of bowlers in the United States increased by 10 per cent, while league bowling decreased by 40 per cent. Lest this be thought a trivial example, he notes that nearly 80 million Americans went bowling at least once in 1993, nearly a third more than voted in the 1994 congressional elections!<sup>8</sup> Americans seem to be bowling alone (or at least in informal gatherings) and, in the process, foregoing the social interaction of organized leagues.

Similar data emerge in studies of political participation, organizational membership, religious affiliation or membership in (and volunteering for) civic and fraternal organizations. Such data also reveal a close correlation between associational membership and social trust.

In response Rifkin, and others, might retort that the traditional forms of civic organization have been replaced by new organizations. Certainly one can point to a wide range of issue-oriented organizations, concerned with the rights and entitlements of various groups. I would suggest, however, that while such membership-based organizations have clearly become a powerful political force, their contribution to social cohesion is less evident; most of their members' involvement is limited to paying dues or reading a newsletter. Few regularly attend meetings of the organization. The bonds between members tend to be allegiance to common symbols, leaders or ideals, rather than to one another.

I've suggested, for example, that the theory of social capital argues that associational membership should increase social trust. This prediction is much less certain with regard to these issue-oriented organizations, in which people join together loosely to get more from government (or some other targeted institution). From the point of view of social connectedness, "belonging to" an advocacy organization or to a civic or fraternal organization are just not in the same category.

This brings me to the thesis of Fukuyama's latest book, *Trust: The Social Virtues & the Creation of Prosperity*,<sup>9</sup> Fukuyama argues that successful soci-

eties are formed over generations, hence it should not surprise us that de Tocqueville's observations still ring true.

Unlike other forms of human capital, social capital is usually created and transmitted through cultural mechanisms such as religion or tradition. As Hegel postulated, we become who we are by being situated in a community. We should not, however, assume that the historic legacy we enjoy is a stable state.

Fukuyama ventures beyond classical economics to explain relative prosperity. He argues that the shape and success of enterprise and government also depend on national culture, which is often not rational or planned and includes little-studied prejudices and intuitions.

Focusing on the relationship of trust to corporate performance, Fukuyama concludes that there are certain nations (including Germany, Japan and the U.S.) that enjoy relatively high levels of "spontaneous sociability"—where people trust each other more. In others (including Italy, France and China), trust is relatively low. The differences are manifested in many ways, including how corporations are organized in these countries.

At some point, successful companies should expand beyond family and friends to raise capital and recruit senior managers. In "high trust" societies, this process has proven to be relatively easy—people are used to forming associations beyond the family. Hence the modern business corporation was pioneered in countries like the United States. In contrast, "low trust" countries such as Taiwan have grown rich, but with economies based largely on familial and family-like ties.

Trust also manifests itself on the factory floor. Just-in-time manufacturing, which places responsibility on line workers, was pioneered in Japan, while Germany emphasizes the role of the foreman, who has discretion to reassign workers. In "low trust" France, by way of contrast, work rules are highly codified, with a national job-classification system that grades each worker in the hierarchy and controls the progress of their careers.

Rifkin writes about the "jichikai", community-based mutual help organizations which include more than 90 per cent of all households in Japan. For my purposes, they are an interesting example of how a "high trust" culture overcomes rigidity. In the late 1930s, the Imperial Government incorporated these associations into the state machinery and by 1940 membership was compulsory.<sup>10</sup> The groups were used to spread wartime propaganda and control the distribution of food and other goods and services. After the war, neighbourhood groups resurfaced as self-governing associations without legal ties to the government and now exist in more than 270,000 neighbourhoods. A local jichikai generally consists of between 180 and 400 households, with leaders elected for two-year terms. They provide a range of services, including helping those in need of financial assistance, those who are homeless, and those

who have a serious illness. They also sponsor cultural activities and, of late, have become advocates for local issues. Because they have no formal legal recognition they do not receive public funds and must rely on membership fees. Rifkin points to the Confucian tradition, with its emphasis on co-operation and harmonious relations, as having spurred such voluntary efforts.

Surely, this points to the link between philanthropy and prosperity. One need only consider the origins of the words: *philanthropos*—goodwill to fellow men or loving mankind; *prosperare*—to cause to succeed. Prosperity requires easy exchanges which, in turn require uniformity of treatment and certainty of application. The expansion of public order, necessary for private enterprise but also valued in its own right, reduced the risks people ran when they trusted one another. Achieving such order appears to depend, in part, on the prior factor of social capital.

Richard Goodwin, in his classic text *The American Condition*, described as natural and desirable “a social condition wherein common values and shared inclinations are experienced by the individual as his own. Not only does he inhabit society, but society inhabits him”.<sup>11</sup>

How are we faring today? In outlining the trend of social disengagement, I have tried to sketch out evidence that we have been depleting our legacy of social capital. Whereas in the 1950s, social critics worried about stifling conformity (the “organization man”), today we worry about the breakdown of community bonds. The balance between individualism and community has shifted dramatically. Rights appear to have replaced responsibilities as the focal point of political (and economic) discourse.

Communities of shared values, whose members are prepared to subordinate their personal interests for the sake of larger communal goals, have become rarer. It is only communities of shared values that can generate the kind of social capital that is critical to organizational efficiency. While property rights and other economic institutions were necessary for the creation of modern business, the latter rests on a foundation of social and cultural habits too often taken for granted. Let me illustrate.

Most observers of political liberalism concede that it is not self-sustaining. I thought of this while watching the tragic and extraordinary funeral of Yitzhak Rabin last year. To take the extreme example, a society built upon rational self-interest could provide no motive for an individual to risk his or her life in defense of the community as a whole. More broadly, if individuals formed communities solely on the basis of self-interest, there would be little in the way of public spiritedness, self-sacrifice, pride, charity or many other virtues that distinguish vibrant communities.

A similar argument can be made with respect to economic liberalism. As Fukuyama demonstrates, rational utility maximization is not sufficient to

explain the relative performance of different economies. Just as liberal democracy works best when individualism is moderated by public spirit, so too is capitalism facilitated when individualism is balanced by a readiness to associate.

Thus social capital is critical to prosperity. Indeed the concept of social capital explains, at least in part, why capitalism and democracy are so closely related. A robust capitalist economy benefits from sufficient social capital in the underlying society to reduce transaction costs and permit enterprise to be self-organizing. In default, the state can step in to promote particular firms or sectors, but markets usually work more efficiently when private participants are making the decisions.

The challenge today is to recognize that the accumulation of social capital is subject to a ratchet-like effect—more easily turned in one direction than another. Interestingly, the infamous market speculator George Soros comes to this very conclusion in his most recent ruminations.<sup>12</sup> He worries that the concept of freedom in western democracies has changed to a narrow one of self-interest, which is exploited through isolationism and laissez-faire economics. He argues that while these doctrines emphasize the importance of competing within an open system, they pay insufficient attention to the preservation of the system itself. Soros views this as the central problem that confronts the world—one to which he has no answer.

At least part of the answer, I suggest, is clear. The challenge of preserving and accumulating social capital should be foremost on our collective agenda.

#### FOOTNOTES

1. Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992).
2. Jeremy Rifkin, *The End of Work* (New York: Putnam, 1995).
3. Peter F. Drucker, *Post-Capitalist Society* (New York: HarperCollins, 1993) p. 68.
4. Peter F. Drucker, "The Age of Social Transformation", *Atlantic Monthly*, November 1994, p. 75.
5. See transcript of "Community and its Counterfeits" (CBC RadioWorks, *Ideas*, 3, 10, 17 January 1994).
6. *Supra*, footnote 2, p. 250.
7. See Robert D. Putnam, "Bowling Alone", *Journal of Democracy* (1995), p. 65 and "Bowling Alone, Revisited", *The Responsive Community*, Spring 1995, p. 18.
8. *Ibid.*, "Bowling Alone, Revisited", p. 24.
9. Francis Fukuyama, *Trust: The Social Virtues & the Creation of Prosperity*, (New York: Free Press, 1995).
10. *Supra*, footnote 2, p. 277.
11. Richard N. Goodwin, *The American Condition* (Garden City, 1974), pp. 29–30.
12. George Soros, *Soros on Soros: Staying Ahead of the Curve*, (New York: Wiley, 1995).