

Country Ranking: Social Capital Achievement

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Under the Principles for Business proposed by the Caux Round Table, economic development does not occur within its own financial vacuum chamber isolated from society and only autonomously self-starting and self-sustaining. Wealth creation is not an isolate, but rather draws upon pre-existing social and cultural conditions for its health and energy.

Strong and vibrant markets arise only in facilitating environments. Markets are organic processes, linked to participants through multiple inter-connections. If we seek to benefit from robust markets as a goad to economic development, we must first put in place a fertilized bed in which to better culture the seeds of productive enterprise.

But as wealth is created and markets thrive to expand the number and capacity of participants in commerce and enterprise, society in turn benefits. Culture changes; new professions and social classes emerge; educational achievement and conditions of public health advance; political institutions shift to incorporate the new dynamics.

The growing inter-action between the economy and its surrounding culture and institutional arrangements accumulates in the formation of social capital. Countries with high levels of social capital formation are more livable, providing for a higher quality of life for individuals and their families; such countries attract immigrants from societies with low levels of social capital. The quality of social capital accumulation tracks the moral quality noted in the Second Vatican Ecumenical Council pastoral Constitution, *Gaudium et Spes*: the common good is widely understood to be the sum of those conditions of social life which enable groups and individuals to achieve their fulfillment more completely and readily. (p. 26)

Accordingly, societies with low levels of social capital experience outflows of human capital as well as of liquid economic wealth. Fulfillment of life goals in these societies is more fitful and transient as a result.

Social capital achievement, therefore, is an aggregate of three subsystems: 1) economic variables, 2) social/cultural variables, and 3) legal and political institutions.

Since there are no direct measurements of social capital, we have created a Social Capital Achievement (SCA) score for 180 countries as an approximation of social capital accumulation. The SCA is computed by first ranking each country on 13 different criteria. A country's rank in each category is converted into a percentile reflecting its achievements vis-à-vis other countries. An average ranking for each country is then calculated of the country's 13 different percentile rankings and the SCA is a ranking of the overall average.

The economic components for the rankings embrace GDP per capita and sovereign credit ratings. Relevant cultural variables and social richness are modeled by indices of corruption, economic freedom, political freedom, civil liberties and human development. Legal and political institutions can be assessed through measures of, the rule of law, 12-core best practice standards for management of financial institutions and other governance indicators.

The Path Towards Progress

As measured by the various country indices available, a country's accumulated social capital is caught in a static moment of assessment. The time scale is not dynamic, but frozen in time. The indices, therefore, are not necessarily predictive of future social capital formation.

Under equilibrium conditions, we hypothesize that social/cultural patterns heavily influence legal and political institutions, which in turn structure incentives, risk/return utility functions, and pricing conditions for economic activity. Economic activity, with its allocation of risks and returns, in turn tends to sustain those who embody and articulate the dominant social and cultural patterns of the society.

From this point of view, economic development will occur most robustly under favorable legal and political conditions, which, in turn, will respond to cultural and value-sensitive imperatives, influenced in their turn by changing economic interests and incentives.

Thus it is possible to trigger a virtuous cycle of cultural initiative, then political accommodation to the new cultural guidelines, then economic progress in response to new opportunities, and, then to reinforcement of the facilitating cultural norms. This is the formula for growth advocated by Adam Smith in his *Inquiry into the Causes of the Wealth of Nations* and vindicated much more recently by David Landes in his *The Wealth and Poverty of Nations*.

Measuring separately the economic, the social/cultural, and the legal/political components of social capital permits a preliminary assessment to be made of what should be done in a given country to trigger a virtuous cycle of growth and accumulation of social capital.

Changes can be authored in the legal/political sub-system, but, to do so, something first must happen in the cultural/social sub-system as a triggering break with the status quo. Then, resulting activity in the economic sub-system will evidence the effectiveness, or not, of the legal/political reforms undertaken to date.

What often hinders change in the cultural/social sub-system are self-interested elites who, one, benefit economically from the current equilibrium state of the society, and, two, whose ideas have been adjusted to legitimate the institutions facilitating their preferential treatment under the status quo. Change agents, therefore, must arise either out of dissatisfaction within the elite under current conditions or from new conditions that give members of the elite new but attractive intellectual options with which to think about political and legal institutions and habits.

Social Capital Achievement Rankings

The following indexes were used to create each country's Social Capital Achievement ranking. Countries that had 8 or fewer of the 13 indicators were not included in the overall ranking but are listed separately. More detailed information on these 13 indexes can be found under the Sources and Notes section on page 6. The 13 basic indexes are:

PPP - Gross Domestic Product Per Capita in Purchasing Power Parity
 HD - United Nation Development Program's Human Development Index
 FREE - Freedom House's Freedom Index
 EF - Fraser Institute's Economic Freedom of the World
 ESF - eStandards Forum's Compliance Summary Index
 S & P - Standard & Poor's Foreign Currency Issuer Ratings
 Moody's - Moody's Foreign Currency Issuer Ratings
 VA - World Bank Governance Indicator - Voice and Accountability
 GE - World Bank Governance Indicator - Government Effectiveness
 RQ - World Bank Governance Indicator - Regulatory Quality
 RL - World Bank Governance Indicator - Rule of Law
 CC - World Bank Governance Indicator - Control of Corruption
 CP - Transparency International's Corruption Perceptions Index
 # - Number of Indices Used in Rankings

Countries	SCA	#	PPP	HD	FREE	EF	ESF	S & P	Moody's	VA	GE	RQ	RL	CC	CP
Dominica	0.7120	8	0.6114	0.4633	0.9944					0.8080	0.6550	0.7370	0.7160	0.7110	
Antigua and Barbuda	0.7050	8	0.6800	0.6893	0.7111					0.5450	0.7010	0.7160	0.8200	0.7780	
Saint Kitts and Nevis	0.6950	8	0.7086	0.7797	0.7889					0.7830	0.5670	0.6030	0.6340	0.6960	
Saint Lucia	0.6600	8	0.5943	0.5989	0.7889					0.7980	0.5670	0.6030	0.6340	0.6960	
Saint Vincent and the Grenadines	0.6507	8	0.5429	0.5085	0.7889					0.7880	0.5670	0.6030	0.7110	0.6960	
Samoa (Western)	0.6394	8	0.6000	0.5763	0.7111					0.6970	0.6440	0.5260	0.7990	0.5620	
Brunei Darussalam	0.6380	8	0.8229	0.8136	0.2556					0.2320	0.8200	0.8040	0.7010	0.6550	
Cape Verde	0.5845	8	0.4114	0.4068	0.9944					0.6160	0.5100	0.4740	0.6030	0.6600	
Maldives	0.5376	8	0.5086	0.5254	0.2556					0.2530	0.7580	0.7420	0.6600	0.5980	
Sao Tome and Principe	0.4480	8	0.3029	0.3051	0.7111					0.6410	0.2890	0.4330	0.4020	0.5000	
Bhutan	0.4214	8	0.2229	0.2429	0.2556					0.1360	0.8140	0.3090	0.5820	0.8090	
Lesotho	0.4209	8	0.2171	0.1808	0.6222					0.4550	0.4950	0.3660	0.5460	0.4850	
Vanuatu	0.4199	8	0.2686	0.2712	0.7111					0.7320	0.2940	0.2010	0.4790	0.4020	
Tonga	0.3879	7		0.6441	0.4000					0.4700	0.2940	0.2010	0.3040	0.4020	
Mauritania	0.3712	8	0.1200	0.1412	0.2556					0.2730	0.5260	0.5460	0.4740	0.6340	
Serbia and Montenegro	0.3296	8			0.6222			0.2500		0.4440	0.2680	0.2940	0.1600	0.2630	0.3356
Solomon Islands	0.3049	8	0.2971	0.2994	0.5556					0.6010	0.0670	0.0930	0.3040	0.2220	
Swaziland	0.2962	8	0.2400	0.2260	0.1278					0.1310	0.4020	0.4590	0.2940	0.4900	
Timor-Leste	0.2920	7		0.1073	0.5556					0.5560	0.2420	0.0880	0.1240	0.3710	
Comoros	0.2555	8	0.2343	0.2316	0.4000					0.3430	0.1960	0.1490	0.2060	0.2840	
Djibouti	0.2324	8	0.1257	0.1299	0.2889					0.2680	0.1650	0.2320	0.3660	0.2840	
Guinea	0.2084	8	0.1029	0.0960	0.2556					0.1260	0.2470	0.2110	0.2730	0.3560	
Equatorial Guinea	0.1360	8	0.3371	0.3842	0.0833					0.0810	0.0570	0.0520	0.0930	0.0000	
Lao People's Dem. Rep.	0.1349	8	0.2286	0.2373	0.0833					0.0350	0.2270	0.1030	0.1290	0.0360	
Iraq	0.0406	7			0.1278					0.0050	0.0100	0.0000	0.0150	0.0100	0.1164

Sources and Notes for the Social Capital Achievement Ratings

PPP - Gross Domestic Product Per Capita in Purchasing Power Parity - World Bank - World Development Indicators 2003

GDP per capita PPP involves the use of standardized international dollar price weights, which are applied to the quantities of final goods and services produced in a given economy.

HD - United Nation Development Program's Human Development Index 2002

Measures a country's achievements in three aspects of human development: longevity, knowledge, and standard of living.

FREE - Freedom House's Freedom Index 2005

An evaluation of political rights and civil liberties by a standard emphasizing the importance of democracy and freedom.

EF - Fraser Institute's Economic Freedom of the World 2004

Measures the degree of economic freedom present in five major areas: size of government: expenditures, taxes and enterprises; legal structure and security of property rights; sound money; freedom to trade with foreigners; and regulations of credit, labor and business.

ESF - eStandards Forum's Compliance Summary Index (March 2005)

Provides a snapshot of a country's overall compliance with the twelve internationally recognized standards of best practices in key policy areas.

S & P - Standard & Poor's Foreign Currency Issuer Ratings & Moody's - Moody's Foreign Currency Issuer Ratings (March 2005)

Country risk considerations are a standard part of an analysis for credit ratings on any issuer or issue. Currency of repayment is a key factor in this analysis. An issuer's capacity to repay foreign currency obligations may be lower than its capacity to repay obligations in its local currency. These sovereign risk considerations are incorporated in the debt ratings assigned to specific issues. Foreign currency issuer ratings are also distinguished from local currency issuer ratings to identify those instances where sovereign risks make them different for the same issuer.

World Bank Governance Indicators 2002: VA - Voice and Accountability, GE - Government Effectiveness, RQ - Regulatory Quality, RL - Rule of Law, CC - Control of Corruption

These indicators attempt to capture how governments are selected, monitored, and replaced; a government's capacity to formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern them.

CP - Transparency International's Corruption Perceptions Index 2004

Ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians.