

Social Capital and National Development

The case of Chile

Outline

- Social Capital and Governance
 - What is it?
 - How is it measured?
 - How is it built?
- Chile-Korea Compared
- Social Capital in Chile
- Practicing Cooperation, the Chilean experience.
 - National Vision.
 - Sectorial Agreements.
- Lessons and Conclusions

Definitions

- Social capital: society's commitment as a resource.
- Social Capital: a set of norms that promotes cooperation among individuals or groups. Trust is what makes cooperative norms operative (Fukuyama).
- Social Capital translates ties into actions.
- Social Capital is a stock that conditions development. Accumulation rests on successful cooperation experiences.
- Social Capital (Putnam and Gross):
 - formal vs. informal
 - extended vs. limited
 - inward vs. outward oriented
 - bridge-building vs. bonding.

Democracy-Development-Social Capital.

- Modern liberal democracy needs abundant social capital: a dense civil society,
- The relationship social capital/development is determined by the radius (extension) of trust:
 - Informal, limited, inward-oriented and bonding can be a liability for development.
 - Formal, extended, outward oriented and bridge building can reduce transaction costs in coordination mechanisms and strengthen governance.
 - Shared information reduces uncertainty.
 - Coordination reduces opportunistic behavior.
 - Successful experiences invites further cooperation.
 - Collective decision making enhances equity.

Definitions

- **Social capital is created by culture (religion, tradition, history).**
- **Social capital arises from repeated interactions (cooperation as a result of self interest).**
- **Building social capital = building trust. A cultural process.**
 - Format adapted to country and stakeholders.
 - Trust builds on common vision among stakeholders: diagnosis and priorities.
 - Trust builds on success.
 - Trust builds on equality.
 - Trust builds on institutions (formal, transparent, efficient).
- **Globalization and its demand for systemic competitiveness a stimulus to social capital formation.**
- **Social Capital is usually measured as the sum of the membership of all groups in a society, weighted by their civic commitment, which in turn depends on the trust they have on major institutions.**

Governments, public policy and social capital

- Governments can promote social capital:
 - Education: social rules and norms.
 - Rule of law: stable and safe environment for interactions.
 - Provision of spaces for positive and inclusive social interaction. Cooperation is a result of practice.
 - Empowerment of civil society.
- Practicing cooperation, two approaches:
 - National approach (Europe, particularly Northern Europe and Scandinavia).
 - Partial approach.
 - Sectoral , piecemeal (Chile).
 - Social, embedded autonomy, Evans. (Korea)

Governance and social capital: high correlation

Source: C. Wetzel, R. Inglehart, F. Deutsch "Social Capital, Voluntary Associations and Collective Action: Which aspects of social capital have the greatest "civic" payoff" in Journal of Civil Society, Sept. 2005.

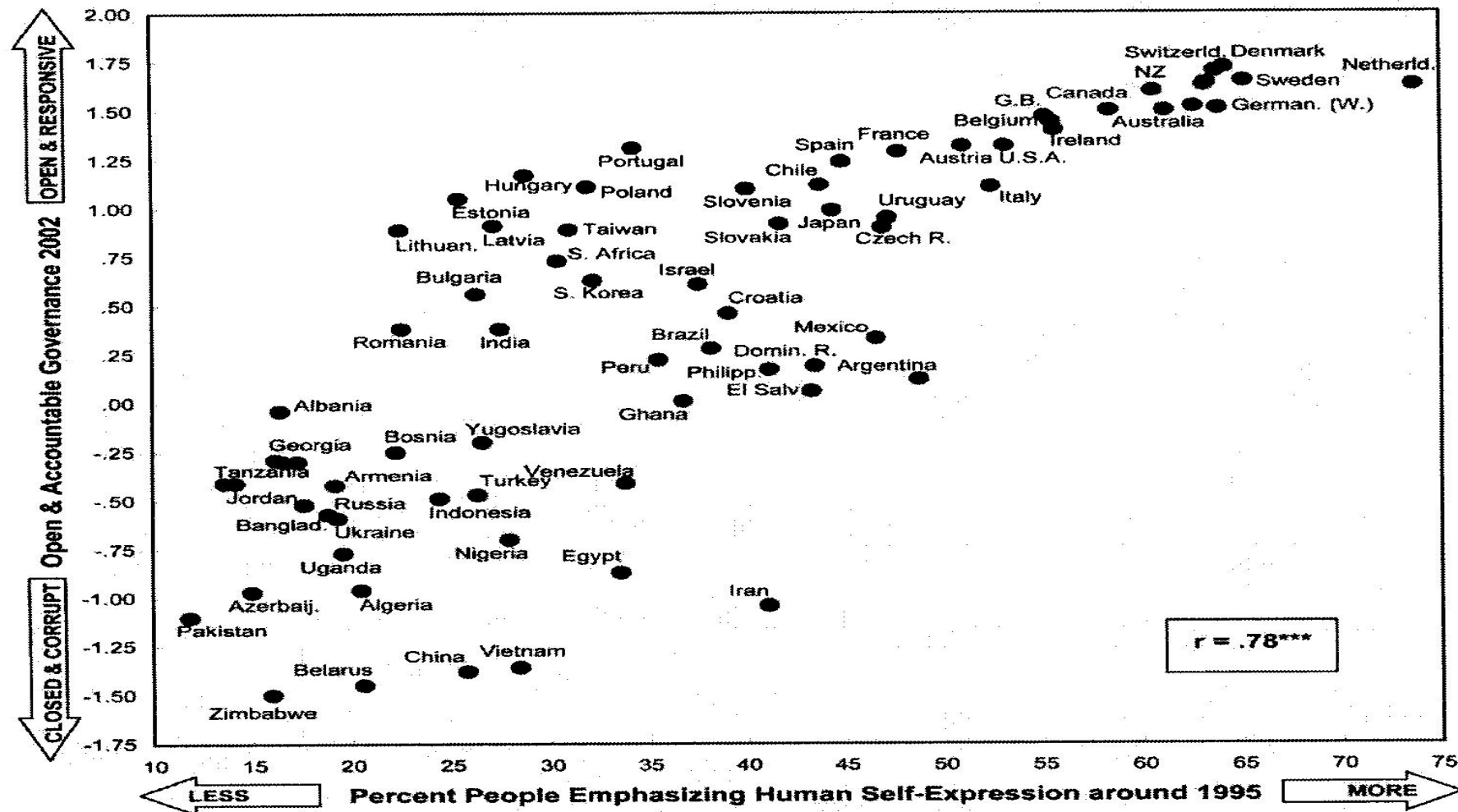


Figure 4. Self-expression values and civic governance

Scandinavia: impressive outcomes

- 3 out of top 5 in Competitiveness
- 3 out of top 5 in equal Income Distribution
- 3 out of top 6 in Human Development Index
- 4 out of top 5 in OECD Tax Burden
- 4 out of top 6 in least Corruption Index
- 4 out of top 7 in Happiness Index
- 5 out of top 6 in quality of Democracy

Chile-Korea 2005/6

	CHILE	KOREA
Population (thousands)	16.295	48.300
GNP pc (U\$ dollars)	5.870	15.830
GNP ppp (U\$ dollars)	11.470	21.850
Rate of Growth 1983-2005	4.4 (9 ^o)	5.6 (2 ^o)
Competitiveness index 2006 (ranking)	27	24
Net Tax Burden	17.9	21.7
Human Development Index (ranking)	37	28
Gini Coefficient	57.1	31.6
Corruption Index 2005 (ranking)	21	40

Governance (-2.5 to 2.5)	Year	Chile	Corea
Voice and accountability	2005	1.04	0.74
	1998	0.59	0.66
Political Stability	2005	0.85	0.43
	1998	0.37	-0.06
Government Effectiveness	2005	1.26	1.00
	1998	1.31	0.43
Regulatory Quality	2005	1.40	0.77
	1998	1.10	0.23
Rule of Law	2005	1.20	0.73
	1998	1.18	0.70
Control of Corruption	2005	1.33	0.47
	1998	1.13	0.04

Chile's Social Capital

Organizations per 10.000 inhabitants

- Argentina 22
- France 39
- Hungary 44
- Switzerland 139
- Austria 107
- Chile 56

Source: "The New Civic Atlas" CIVICUS, 1997.

Number of members in organizations (accumulated percentage relative to population)

- Netherland 242
- Sweden 205
- Norway 188
- Mexico 93
- Chile 81
- Italia 77
- Japan 20
- Spain 15

Source: World Value Survey (ICPRS), 1990.

Social participation in Chile, 2004

(percentage of adult population that participate in social organizations)

■ Protection of rights	23.
■ Community-Solidarity	44.
■ Religious	26.
■ No Participation	33.

Source: Human Development Report 2004, UNDP

Support to Democracy

(percentage)

	Year	Chile	Latin-america
Support to Democracy	1995	54	61
	2000	57	60
	2004	57	53
Satisfaction with Democracy	1996	27	27
	2004	40	29

Source: Latinbarometer

Practicing Cooperation at the National Level

- National Vision
 - National Agreement, 1990.
 - Labor and income agreements 1990-93.
 - Development Forum, 1994-1999.
 - Social Dialogue Council, 2000-02.
- Major agreements:
 - Knowing each other, new ways of relating.
 - Development model.
 - Free trade agreements.
 - Development programs (SMEs, Competition, Training, Permits)
 - Social Protection and Unemployment insurance.

Practicing Cooperation

Sectoral Agreements and Reforms

- Education (1992, ongoing)
- Labor (1992, ongoing)
- Environment (1992-93)
- Judicial (1994-98)
- PPP infrastructure and public utilities (1994-98)
- Health (2001-2004)
- Pro-growth (2001-2)
- Modernization of the State (2003)
- Social Security (2006, ongoing).

Two successful examples: Pro-growth and State Modernization

- Pro growth: Explicit agreement between government and business, tacit agreement from political parties. Plural collaboration of Think Tanks.
- Modernization of the state: explicit agreement among all political parties, tacit agreement from social partners. Collaboration of Think Tanks.
- Both arise from a conflictive situation and enabled a successful resolution of the conflict.
- Clear link with budgetary process: targets, evaluation and feedback.

Pro-growth Agenda

■ Pro-competitiveness

- Tax tribunals: certainty, autonomy, reducing costs.
- Institutions for competition policy.
- Economic tribunals.
- New legislation on bankruptcy.
- New regulatory legislation for energy sector.
- New legislation to regulate fishery and aquiculture.
- Environmental legislation: green bonds.
- Transparency and equity in purchases of arm forces.

■ Modernization of the State and I.T.

- Law that regulates electronic signature.
- Transparency and competition in government purchases.

Pro-growth Agenda

- **Reducing burocracy.**
 - Fatal dates for permits (administrative silence).
 - Increase electronic permits and exchange with government.
- **Taxes.**
 - Tax benefits to foreign investors that use Chile as an export platform.
 - New regulation on depreciation of capital.
 - Reduction of taxes in financial transactions.
 - Further reduction for SMEs
- **Financing for University studies.**
 - Additional funds for scholarships.
 - New credit system for students in public Universities.
 - Credit system for students in private Universities.

Pro-growth Agenda

- **Employment and labor legislation.**

- Subsidies for youth employment with training.
- Labor protection for short term employment.
- Creation of Chile- Califica permanent education and training for labor force.
- Voluntary savings scheme to supplement unemployment insurance.

- **Promotion of Exports.**

- Reducing from 6 months to 20 days the granting of permits to storage exports and imports.
- WTO proof system of tax returns for exports.
- Public officials specially encharged of reducing time in granting permits and licenses.

Modernization of the state: transparency and probity.

- **Redefinition of government apparatus**
 - Ministries formulate policies.
 - Services execute actions.
 - Superintendencies exercise control.
- **Reforms in Parliament**
 - Prohibition for parliamentarians to have state contracts.
 - Prohibition for parliamentarians to be in the Board of Directors of private enterprises.
- **Judicial Reform (additional)**
 - Prevention of conflicts of interests (inabilities).
 - Transparency of all actions and procedures.

Modernization of the state: transparency and probity.

Reforms for public employees.

- Inabilities for public employment (relatives, pending legal issues, previous contracts).
- Declaration of interests and wealth.

Transparency and probity, penalties for:

- Unlawful use of privileged information.
- Lobbying.
- Action on issues for personal interest.
- Avoid public tender.

Incompatibilities.

- Unable to provide professional services on areas related to the institution.

Modernization of the state: transparency and probity.

- **Government purchases.**
 - Transparent requisites for government purchases and contracts.
 - Electronic purchases for all government services.
- **Public Financial Administration.**
 - Outcome indicators for all programs.
 - Evaluation of all programs.
 - Comprehensive evaluation of government expenditure.
 - Programs to improve execution-
- **Equal rights.**
 - Equal access and time limits for public procedures.
 - Ombudsman.

Modernization of the state: transparency and probity.

- **Control of public activities.**
 - Internal Auditing Council.
 - Autonomous Comptrollers Office.
 - Auditing from Parliament.
- **Citizen's participation.**
 - Mandatory dialogue with civil society before decisions on execution of public projects.
 - Citizen's participation law.
- **Regulation of financing of political parties and campaigns.**
 - Regulatory law for financing political activities.

Lessons and Conclusions

- National Agreements defined framework and provided basic trust.
 - Did not define priorities and sequences, most conflictive issues were delayed.
 - Distribution of income remained untouched in dialogue and reality.
 - Strengthening the capacity of the weaker players crucial for leveled field.
 - Crucial for major (cultural) reforms: free trade, redefinition of the role of the state:regulatory, privatization.
 - Information and transparency are crucial for participation and social commitment.
- Weak and/or excluded social actors limit the effect of cooperation.
 - Exclusion promotes informality and empowers the powerful.
 - Informality limits the existance of “programatic” political parties.
 - State has to include: subsidize and empower the weak partners.

Lessons and Conclusions

- Sectorial reforms: positive outcome induces cooperation, undealt national issues reproduce themselves
 - Agreements are easier to reach in conflictive situations: crisis as an opportunity.
 - Limited reforms are easier to complete: build on success.
 - Distributive issues (not agreed at the national level) could not be dealt with.
 - Quality (balance and representation) of the agreement determines speed of reform.
- Social Capital strengthens internal stability and external trust