
REVIEW ARTICLES

Filling the 20 Per Cent Gap: Francis Fukuyama on Trust and Social Capital

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Francis Fukuyama, Trust: The Social Virtues and the Creation of Prosperity, Hamish Hamilton, London, 1995

ECONOMICS is often accused of invading other disciplines. Protests accompany economists' use of economic assumptions, such as behaviour being understood in terms of rational self-interest, to analyse ostensibly non-economic realms of life like the family or politics. Yet the boundaries between the social sciences have always been fluid; and sociologists, philosophers, political scientists and theologians have recently been having more to say about economics. Despite the use of military figures of speech by those opposing economic methodology, a better metaphor is that of a conversation.

Francis Fukuyama's *Trust* fits well into the conversational metaphor. While arguing that models based on economic man (who is motivated by rational self-interest) cannot explain all economic behaviour, Fukuyama is happy to concede that they do explain a lot. In contrast to the near-hysterical (and unconversational) attacks on neoclassical economics we find in some of the literature on the cultural aspects of economic life, Fukuyama says neoclassical economics 'is correct about 80 per cent of the time' (p. 13). The title of his book is, of course, a giveaway as to what he thinks is important in explaining that 20 per cent of economic behaviour to which neoclassical economics is blind. He says that his book shows that a 'nation's well-being, as well as its ability to compete, is conditioned by a single, pervasive characteristic: the level of trust inherent in the society' (p. 7). Much of *Trust* is taken up with case studies — of the United States, Japan, Korea, France, Italy and the Chinese — intended to show how trust contributes to prosperity.

According to Fukuyama, 'trust is the expectation that arises within a community of regular, honest and cooperative behaviour, based on commonly shared norms, on the part of other members of that community' (p. 26). Trust is good for the economy because it cuts transaction costs. If we can trust each other in business,

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there is 'less need to spell things out in lengthy contracts; less need to hedge against unexpected contingencies; fewer disputes, and less need to litigate if disputes arise' (p. 151). Trust enables societies to 'innovate organisationally', since it 'will permit a wide variety of social relationships to emerge'. This explains why 'highly sociable' Americans pioneered the development of the modern corporation, and the Japanese 'explored the possibilities of the network organisation' (p. 27). Trust also helps people work together more effectively, as they are prepared to subordinate their individual self-interest to that of the group (though Fukuyama does not make this point as clearly as the others).

Trust and Social Capital

Fukuyama equates trust with 'social capital'. This is an analogy with older economic ideas: 'physical capital', like factories and other investments capable of producing in the future, and 'human capital', or the aptitudes and skills people have that make them productive. Trust is a form of social capital because it increases the productive capacity of the relationships between individuals. I do not dispute that trust is a part of social capital, and an important part. But it is with this definition of social capital that Fukuyama's book begins to go wrong.

There is no hard-and-fast definition of social capital. The term has been used by leading expositors such as the late James S. Coleman and the political scientist Robert D. Putnam (who draws on Coleman) to refer to social relationships facilitating cooperation. Coleman perhaps even went a little further, saying that social capital is created when 'relations among persons change in ways that facilitate action' (1990:304). Cooperation can take place in the absence of trust. When individuals or groups reach a point at which their mutual self-interest in trade outweighs their mutual dislike, they can cooperate. But this point is better characterised as toleration than trust. On-going relationships can be a sufficient basis for cooperation. If both parties benefit from a continuing series of transactions, the threat of economic loss as a penalty for breaching the terms of the transaction will ensure that they continue to cooperate. The social capital is the on-going relationship. Trust increases social capital's efficiency, but it is not an essential element.

Fukuyama's definition of social capital leads him to overestimate its economic importance — I think. I say 'I think', because, like Fukuyama, I have no real way of measuring social capital. Economists have come up with ways of putting monetary values on physical and human capital, but insofar as social capital is quantifiable it is only through a collection of proxy measures derived from opinion surveys, time-use studies, social-network analysis, and miscellaneous other sources. These data can give us impressions of our stock of social capital, and we should not shy away from discussing the subject just because we cannot come up with precise numbers. But it would help, in a book making large claims about the *economic* significance of social capital, to get some idea of how much it is really worth. Robert Putnam's *Making Democracy Work* (1993) is an excellent book because of the lengths its author went to substantiate his theoretically plausible hypotheses about

social capital with detailed historical and statistical evidence. *Trust* has many interesting case studies, but it is not in *Making Democracy Work's* evidential league.

Keeping in mind that I can no more conclusively prove my case than Fukuyama can his, I believe that he overstates the importance of trust. As a couple of other reviewers of *Trust* have pointed out, countries Fukuyama classifies as 'low trust' have put in strong economic performances. Fukuyama classes Chinese societies as 'low trust' because circles of trust tend to be limited to kin, whereas economic success requires cooperation with non-kin.¹ In his review of *Trust*, Robert M. Solow reported a survey ranking 118 countries by growth in per capita production between 1960 and 1985. Taiwan, Hong Kong, Singapore and South Korea came in second through fifth (1995:37). This survey's time-frame means that it could not take into account the more recent but spectacular economic growth of another Chinese society: China itself. Since China suffers from both a Chinese family structure and the accumulated distrust coming from decades of Communist Party rule, it probably has particularly low levels of social capital, as defined by Fukuyama. Yet this seems to have been no bar to a good economic performance. Maybe all these countries' growth rates would have been better still if they were 'high trust'. But, on this evidence, if I were an economic adviser to a developing country, I'd put increasing social capital well down my list of priorities.

The problems of Fukuyama's thesis do not mean that social capital is not important to economic success, but rather, as I said earlier, that Fukuyama places too much importance on trust. As the subtitle of his book suggests, there are various virtues conducive to wealth creation. Fukuyama lists such virtues as loyalty, honesty, dependability, reliability, cooperativeness and a sense of duty to others. These are all aspects of individual character that plausibly could contribute to economic performance. The role of social capital here is to inculcate and enforce these virtues. Fukuyama points out that these virtues are best cultivated in strong groups, such as families, schools and workplaces (p. 48). Yet 'strong' groups are not necessarily high-trust or high in solidarity. 'Strong' could equally well mean that there is a social structure in which those lower down the hierarchy are motivated as much by fear of punishment as by trust or solidarity.

Trust may not always be the most efficient way of ensuring that people fulfil their obligations. Even if most people could be trusted to perform the basic tasks for which they are responsible, incentives and sanctions can be valuable devices encouraging extra effort and discouraging shirking and dishonesty. Market economies certainly benefit from trust reducing transaction costs, but self-interest is also a powerful motivation. Charities have often been poorly run partly because their managers are less subject to the incentives and sanctions of the market, even though, measured on good intentions alone, they may be more worthy of trust than their counterparts in commercial organisations. Valuable as trust is, it perhaps can take an economy only so far.

¹ Other studies suggest that the overseas Chinese have strong dialect and district as well as kin networks (DFAT, 1995).

Fukuyama's own comparisons between countries show that there are substitutes for trust in creating cooperation. The lack of trust among non-kin in 'familistic' societies may make state intervention necessary to build large-scale enterprises or to 'promote community where there is a deficit of spontaneous sociability' (p. 27). He argues that, as there are problems in relying on the state, we should prefer his social capital path to prosperity. We need not disagree with him on this to see that trust, on Fukuyama's own evidence, seems to be far from an essential element in economic success. Trust is one way of achieving cooperation, but traditional authority structures, self-interested exchange and state intervention are all viable alternative mechanisms.

Trust's international comparisons do not serve Fukuyama's desire to make a clear argument about the importance of trust. What they demonstrated to me was that, while social capital is relevant to understanding how different economies work, it manifests itself in different ways; and, further, no one type is necessarily the best in all circumstances. Low-trust 'familistic' societies may have quite adequate social capital when operating in an economic environment in which business opportunities exist mainly for small firms. Conversely, in this kind of economic environment, people with high trust of non-kin, but without an inclination to put in the hours and effort driving many family small businesses, may do relatively badly. As Peter L. Berger has argued, cultural traits may be "latent" for long periods of time until the circumstances (economic, political, even ecological) are right for their hidden potential to become manifest' (1994:9).

Trust and Individualist Culture

Trust would have been a better book if it had been more modest in its ambitions. Rather than setting out, unsuccessfully in my view, to show that a nation's well-being and ability to compete is conditioned by levels of trust, it ought to have focused on a topic that clearly weighs heavily on the author's mind: the state of social capital in individualist societies, and the implications this has for their well-being.

Fukuyama's argument holds up better if it is not generalised beyond the United States, or at least not generalised beyond countries like the US, Australia, Great Britain, New Zealand and Canada, which have strongly individualist cultures (see Triandis, 1995:104, for international individualism rankings). In these countries, the alternative mechanisms for achieving cooperation, such as state direction and traditional authority structures, are less acceptable than in nations with more group-oriented cultures. While cultures undoubtedly evolve, they do so only slowly. The individualism of currently individualist countries must be taken as relatively fixed. These nations could perhaps use the alternative mechanisms for achieving cooperation more than they do, but cultural incompatibility means they are unlikely to be very successful. Imposing too many rules on individualists is as likely to encourage rebellion as cooperation.

The interesting questions, then, are not of the individualist versus communitarian variety. They are rather about how the benefits of cooperation can be enjoyed without coercion. To work effectively, free societies require most citizens not to

abuse the opportunities freedom gives them. People must trust that others will not so abuse their freedom; otherwise, costly and restrictive monitoring and enforcement mechanisms are necessary. Trust is a more valuable component of social capital in individualist than in communitarian or collectivist cultures.

Arguably, too, trust is more important now than in the past for countries in the Anglo-American individualist tradition. All these countries' economies have a highly developed division of labour, so that people must entrust many activities to persons about whom they have little or no personal knowledge. A large proportion of jobs involve autonomous activity and judgment on the part of employees who, to a significant extent, must be trusted to carry out their tasks conscientiously, since supervision requires too much duplication of effort. Even for those occupations in which the work is of a more routine variety, increased competitive pressure means that the organisational culture of firms must be capable of handling regular change. If employees distrust management, change will be that much harder to implement. Greater competitive pressure has also increased the desirability of cooperation between businesses: a Bureau of Industry Economics (1995: Part B) study found that Australian businesses report significant advantage from such cooperation. Interestingly, a lack of trust was reported by many businesses as an obstacle to cooperation (BIE, 1995: Part C).

Declining Social Capital

Like many other observers of the United States, Fukuyama is concerned that its social capital is in decline. He repeats some familiar statistics: rising divorce, declining membership of voluntary associations, increasing crime, decreasing numbers saying that they trust 'most people' (pp. 308-10). Elsewhere, I have collated similar proxy measures of Australian social capital (Norton, 1994). As I argued above, these measures give us no more than a rough guide to the state of social capital, but even if these statistics paint an overly gloomy picture (since, for example, most people's social contact takes place through informal structures, and levels of social capital seem to vary greatly between groups and regions within countries) none are good in themselves, and we are right to be worried by them.

How this concern should translate into action is not always clear. Fukuyama lists a few possible explanations of declining social capital, but is vague about the policy implications. While saying that 'diversity' has advantages, 'past a certain point it erects new barriers to communication and cooperation with potentially devastating economic and political consequences' (p. 270); he recommends 'assimilation through language policy and education' (p. 306). He warns against an excessive concern for individual rights, which undermines the ability of communities to set standards for their members, denies public housing authorities the power to reject people with criminal or drug abuse records, and stops police setting up sobriety checkpoints. The 'capitalist revolution undermines local communities as

jobs are moved' and 'families are uprooted' (p. 312).² Public housing policies destroyed many of the social networks previously existing in poor neighbourhoods; the welfare state accelerated the decline of the communal institutions it was designed to supplement (p. 313). Post-World-War II technological innovations such as television reduce the amount of social interaction occurring during entertainment (p. 316).

Many of these problems would be very difficult to fix in anything but the longest term. Diversity exists and, while its problems can be ameliorated by encouraging English-language learning, it cannot be done away with by any means acceptable to a liberal society. Individual rights have benefits, and in the United States there are constitutional obstacles to their reduction. Job mobility occurs because of individual and corporate economic benefits, and it has hard to see how it can be substantially reduced without major economic cost. The problems of public housing are well recognised, but, for financial reasons, undesirable high-rise apartment buildings and all-public housing estates are not going to be demolished *en masse*. The drawbacks of the welfare state are also widely acknowledged, but widespread dependence on it makes radical reform politically difficult. As for too much television — Robert Putnam favours this explanation for declining social capital as well — there is not too much that can be done beyond hoping that more sociable entertainment will increase in popularity.

Increasing Social Capital

The lack of detail Fukuyama gives as to how trust can be increased is disappointing. In this respect, *Trust* shares a shortcoming of Putnam's *Making Democracy Work*: they both give us reason to think social capital is important, but give us little idea as to how it can be built where lacking. The fault is more serious in *Trust*, though, because Putnam's book was a path-breaking volume that set up issues for others to pursue. Coming later in the debate, we could reasonably have expected *Trust* to deal in more depth with the issue of social capital creation.

At one level, there is no great mystery about the sources of social capital. Social capital increases with group membership. Inclusion in social groups is a source of social capital in itself, since it suggests to the individual that he or she shares values

² It is, however, a myth that mobility is increasing. In the US, the long-term trend is toward residential stability (Norton, 1994:70-1). In Australia, the proportion of the population that moved between 1966 and 1971 was 39.4 per cent, increasing only slightly to 40.7 per cent in the 1986-91 census period (Bell, 1995:13). What is true is that residential mobility rates are higher in nations with individualist cultures (Bell, 1995:17). Elsewhere, Fukuyama has stated that he thinks that the American propensity toward mobility is as much cultural as the product of economic forces (Gray, 1995:63). In the US, the median number of years male workers stay in the same job is below its 1983 peak, but still higher than in most of the post-war period (*The Economist*, 28 January 1995). For Australia, although surveys done over the last five years indicate that people feel less secure in their jobs (Evans & Kelley, 1995), from 1983 to 1994 the proportion of the workforce who had been in their jobs five years or more increased from 36.3 per cent to 43.9 per cent (ABS, 1990:51; 1994:6).

with others, which Fukuyama believes is important to trust. Important as shared values can be, Fukuyama overstates the independent role of values as compared to the role of practices that develop within groups. If someone is told that he or she is a member of a group, his or her propensity to cooperate with other members of the group increases, even though nothing is shared beyond the arbitrary group classification of a researcher (McAdams, 1995:1014-16). The more communication that takes place between group members, the less likely they are to act out of self-interest, even if the material incentives encourage them to do so (Frank, 1988:223-4). Once people are part of groups, they have access to social networks, increasing their opportunities for collaboration. Social networks monitor adherence to the social virtues, further increasing cooperative behaviour. From the starting point in group membership it is not difficult to start a 'virtuous cycle' of social capital creation.

A key to social capital creation is getting people to the group-membership starting point. This requires studying incentives for group membership; but Fukuyama does not even survey the existing literature on the subject. This is disappointing and surprising, since one important incentive is discussed in Fukuyama's earlier book *The End of History and the Last Man* (1992), namely, the human desire for 'recognition' of their worth. This desire is one of the forces encouraging people to become involved in groups. Social psychologists draw a distinction between 'personal' identity, those characteristics differentiating one individual from another, and 'social' identity, those categorisations depersonalising the self into inclusive social units, in which 'I' becomes 'we' (Brewer, 1991:476). Group membership provides recognition through both forms of identity. Groups provide the social networks through which individuals receive feedback on their personal attributes. Social identity gives individuals recognition unrelated to their own personal attributes and achievements. The existence of this 'we' identity allows individuals to enjoy vicarious recognition at the successes — past, present and predicted — of other members of their social group. A discussion of how this incentive to group membership might be used to remedy weaknesses in social capital creation would have added a lot to *Trust*.

An Intellectual Stepping Stone?

Trust weakens itself by overstating its case. The difficulties in measuring trust and showing its links with economic success prevent the evidence from sustaining the argument Fukuyama wants to make. He misses the opportunity to discuss in more detail what destroys and what creates social capital. However, the book might end up as a useful stepping stone. Much of the literature on social capital has been written by people with either little interest in or hostility toward economics. Fukuyama, as I noted at the outset, believes that neoclassical economics tells us much that is useful about economic behaviour. His more constructive approach, and the extensive publicity his book has received, may encourage economists to think more systematically about social capital. Perhaps, then, some of the methodological problems holding back social capital theory can be sorted out. *The End of History and*

the Last Man indicated that Fukuyama's talent lies in setting off interesting debates rather than persuading people. I hope with *Trust* that he has done it again.

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