

## Social cohesion and inclusive growth: inseparable

Social cohesion and inclusive economic growth are two inseparable concepts that mutually feed back into each other. Therefore, in a country where growth is more inclusive, it is easier for social cohesion to increase. Similarly, it seems easier to implement measures that foster a more inclusive form of growth in a country with a higher level of social cohesion. Social cohesion, in the end, is one of the factors that allow economic growth to be inclusive. Nevertheless, the same relationship also applies in the opposite direction. So when growth becomes less inclusive, for instance because the regulatory environment does not adapt to changes in the productive structure arising from technological change or globalisation, there is a risk of damaging social cohesion, with everything that this entails. In the current context, analysing a country's social cohesion is key for being able to determine its capacity to cope with the challenges we face.

Before diving in, it is worth pointing out that when we talk about social cohesion in this article, we are referring to the state of the various types of interaction between members of a society.<sup>1</sup> These types of interaction include, for instance, trust, the sense of belonging, the willingness to participate, the willingness to help and all behaviours derived from these.

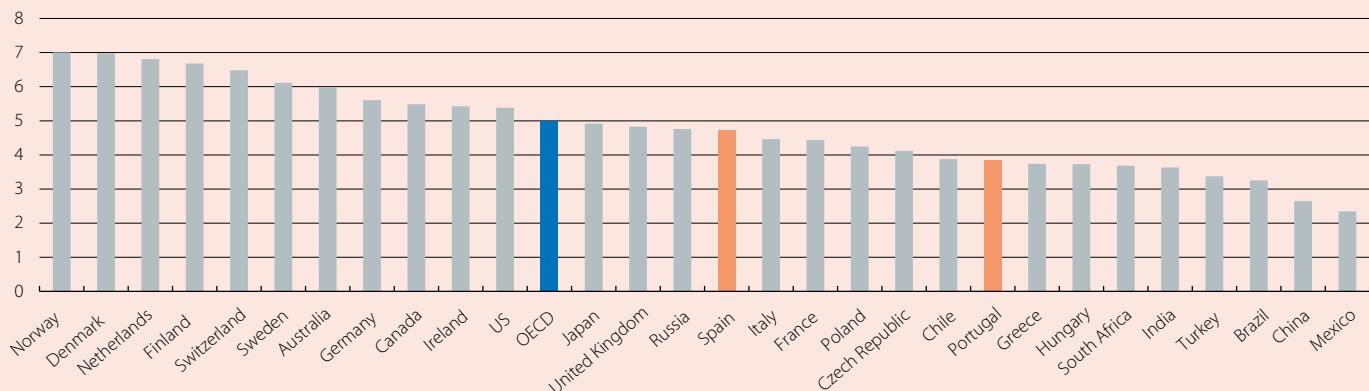
Equipped with a good definition, we can now analyse the state of social cohesion in the main developed countries and its relationship with inclusive economic growth. To do this, we developed an index, the aggregate social cohesion indicator (ASCI), which allows us to aggregate and synthesise the information contained in the 33 social cohesion indicators of the OECD in a single measure. It should be noted that these indicators cover all aspects of the social interactions that make up the concept of social cohesion, and they can be grouped into five categories according to the type of interaction: personal satisfaction, social environment, trust, political participation and levels of crime. To build our index, we classified the different variables gathered by the OECD into each of the five areas for each country. Most of these variables quantify the state of social interactions based on national surveys (some examples include the percentage of people who have someone close to them whom they can rely on, trust in institutions and insecurity relating to job loss). Subsequently, we calculated an average for all the different countries. We assigned a weight of 20% to each of the categories, although we also checked that the results obtained hold up with different weight allocations.

One revealing conclusion is that the Nordic countries, which tend to have a high level of institutional quality,<sup>2</sup> are at the top of the list. On the other hand, emerging economies, whose institutions are less robust and consolidated, have the lowest levels of social cohesion. This is because social cohesion is partly determined by the level of development of each country's institutions.<sup>3</sup>

In Spain, the degree of social cohesion lies somewhere in the middle of the ranking, albeit below the OECD average according to the ASCI. On a positive note, there are high levels of personal satisfaction and a buoyant social environment, while on the flip side of the coin we find low levels of trust in institutions.<sup>4</sup> Portugal, meanwhile, lies somewhat below Spain as a result of significantly lower levels of personal satisfaction and political participation. It is interesting to note that countries such as Germany, Finland and the US enjoy much higher levels of trust than Spain or Portugal, hence they serve as important benchmarks.

### Aggregate social cohesion index (ASCI) \*

Index



**Note:** \* The ASCI is calculated on the basis of a set of 33 indicators, by country. Firstly, we group the indicators according to the category to which they relate (satisfaction, trust, political participation, criminality and social structure). To aggregate the indicators, we standardise them with mean 0 and variance 1. Then, the average for each category is calculated. Finally, the values obtained are aggregated by assigning a weight of 20% to each category. The benchmark score is 5, which corresponds to the average of all OECD countries.

**Source:** CaixaBank Research, based on data from the OECD.

1. See Chan, J., To, H. P. and Chan, E. (2006), «Reconsidering Social Cohesion: Developing a Definition and Analytical Framework for Empirical Research», *Social Indicators Research*, 75(2), 273-302.

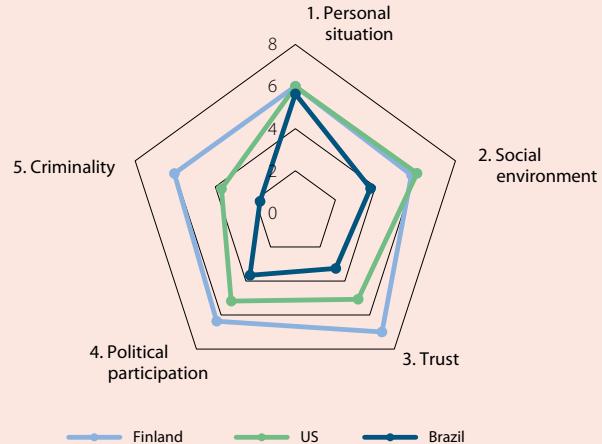
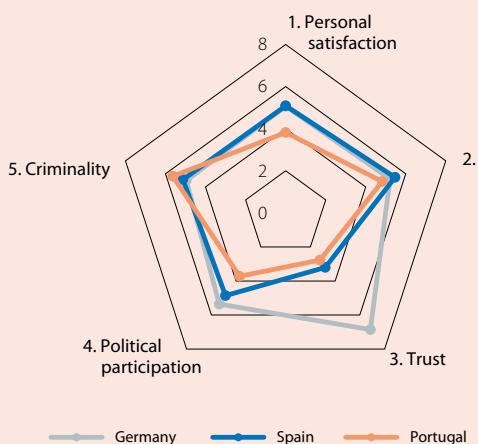
2. According to the Global Competitiveness Index for 2018 (WEF), all the Nordic countries are in the top 15 of the ranking of economies with the highest institutional quality.

3. See Easterly, W., Ritzen, J. and Woolcock, M. (2006), «Social Cohesion, Institutions, and Growth», *Economics & Politics*, 18(2), 103-120.

4. Among other variables, the trust category encompasses the society's level of trust in public institutions and the degree of insecurity relating to job loss, variables in which Spain has relatively low levels.

### Social cohesion: main components

Index (5 = OECD)



Source: CaixaBank Research, based on data from the OECD.

Specifically, the Nordic labour model that combines worker protection with flexibility in optimal doses, the high quality of government in Germany<sup>5</sup> or the system of checks and balances of the US system all serve as examples of good practices that shore up the level of trust within the society.

When we perform a comparison between countries for the different categories, we obtain some interesting results. As an example, if we focus on the area of criminality, we note that European countries score better, while both the US and emerging countries show a perception of greater criminality. Bearing in mind that measures of criminality could be capturing the degree of social unrest, it seems natural that societies with more developed and generous welfare states, such as those in Europe, come out in better shape in this area than emerging countries or the US.

It is also of interest to analyse the behaviour of the category relating to political participation. This area informs us about the degree of public interest in politics, as well as the degree of public participation in it. According to our results, the Nordic countries have very high scores, while Latin American countries, many of whose democratic institutions are still in the process of maturing after long dictatorships, have the lowest scores. Spain and Portugal, meanwhile, fall below the OECD average in this area, suggesting that there is room for improvement to achieve a more fluid relationship between society and the main political institutions.

Finally, we used our social cohesion index to study its relationship with inclusive growth. Our results confirm that the two concepts are inseparable. As can be seen in the third chart, there is a close relationship between the ASCI and the Inclusive Development Index (IDI) prepared by the World Economic Forum.<sup>6</sup> In particular, an increase of a point in the ASCI is linked with a 0.47-point increase in the IDI, illustrating that social cohesion (ASCI) does indeed have a strong and positive correlation with inclusive growth.

In short, faced with the major transformation of the productive system brought about by technological change and globalisation, as well as the challenges posed by an ageing population, it is important to take action to strengthen social cohesion – an indispensable element if we are to carry out reforms that foster an inclusive and sustained form of growth.

Javier Ibáñez de Aldecoa Fuster  
CaixaBank Research

5. According to data from Bertelsmann Stiftung, Germany is the fifth highest country in the world in terms of democratic quality and the eighth highest in terms of quality of government.

6. This is an aggregate measure of 12 indicators distributed across three key areas: economic development, social inclusion and sustainability. Each area is given the same relative weight in order to obtain the general index. The values are distributed on a scale from 1 to 7, where 7 is the highest inclusiveness score.