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Research Report

Social cohesion and economic development: Unpacking the relationship

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Social Cohesion and Economic Development: Unpacking the Relationship

Summary

Social inequality and societal fragmentation have become major concerns in many OECD countries and developing regions in recent years. Policymakers and researchers assume that economic factors such as income inequality and/or unemployment cause and aggravate these trends. The 2030 Agenda acknowledges the challenge and emphasises the importance of inclusive growth, equality and peaceful, inclusive societies. However, for evidence-based policy-making we need more sound and comprehensive empirical evidence of the relationship between economic factors and societal fragmentation.

This Briefing Paper gives an overview of the main findings of economic studies on social cohesion, and introduces the implications for development policies.

Economists find a positive relationship between social cohesion and economic growth, on the basis that social cohesion improves formal and/or social institutions, which causally drives economic growth. Evidence of a relation running from growth to social cohesion exists but is still very scarce and limited to correlation analysis so that neither direction nor causality can be exclusively claimed. One potential mechanism through which growth might influence social cohesion is inclusive, pro-poor-oriented improvements in development outcomes, namely employment creation, education and decreased inequality in income and resource distribution. Another potential mechanism is policy reforms, for instance in the fields of social protection and taxation. More research is needed, however, to fully understand whether there is a feedback loop from growth to social cohesion or whether the relationship primarily runs the other way round.

Development cooperation, particularly that involving Germany, has been increasingly focused on economic development in general and promotion of the private sector in particular. Explicit links to social cohesion are not part of most development strategies, peacebuilding being an exception. However, economic policies and growth do not necessarily raise social cohesion and can even contribute to increasing social dissatisfaction and unrest if not properly distributed.

Social cohesion is primarily a social phenomenon of relations between societal actors and institutions. It therefore requires prudent policies, which ensure that economic development is inclusive and that it translates into changes of social and societal realities that strengthen societal bonds. It is thus desirable that strategies for economic development include mechanisms to foster social cohesion or, at least, do not counter the “togetherness” of a society (“do no harm”).

Policymakers, NGOs, charities and think tanks can address social cohesion as follows:

- **Recognise the importance of social cohesion in development strategies.** Social cohesion is not only a valuable goal in itself but also a key condition for the impact and sustainability of development cooperation and economic growth.
- **Consider trust, identity and solidarity in support of social cohesion.** Successful support of individual elements is likely to make a difference for social cohesion in a given society.
- **Integrate mechanisms that foster social cohesion into strategies for economic development.** Economic development in itself does not automatically increase social cohesion and hence does not necessarily contribute to counteracting the drifting apart of a society.

Concerns about declining social cohesion

The 2030 Agenda acknowledges concerns about societies fragmenting, and pledges “to combat inequalities within and among countries; [and] to build peaceful, just and inclusive societies” (UNGA, 2015, p. 3). This policy goal reflects recent trends, as social inequality and a fear that society is drifting apart have become major concerns in many OECD countries and developing regions over the last years. Not only have politicians emphasised the importance of social bonds and social cohesion in public discourse worldwide, social cohesion has been explicitly included in policy agendas, for example in the Council of the European Union under the Bulgarian presidency in 2018. The cohesiveness of society is – to a varying degree, depending on the respective national context – challenged by rising social tensions and societal cleavages along the lines of ethnicity, religion and class. Both can lead to rising protests and destabilisation of societies. In the future, massive changes in societal structure – accelerated by economic structural transformations, shifting age structures in societies, rural-to-urban migration, and rising inequality in income and resource distribution – will exert additional pressures on social cohesion in developed as well as in developing countries.

Policy-makers and researchers share the problem analysis that there is a high correlation between economic factors and social cohesion in a society. However, sound and comprehensive empirical evidence of this relationship is still lacking. Most debates primarily point to inequality in income and resource distribution, as well as unemployment. In 2017, for instance, Oxfam estimated that 42 billionaires possessed as much wealth as the bottom half of the world and, according to the World Inequality Report, the top 10 percent in Sub-Saharan Africa accounted for roughly 55 percent of national income in 2016, making it the region with the second-highest income inequality.

This Briefing Paper describes what we know about the relationship between economic factors and social cohesion. It first gives an overview of the main findings of economic studies on social cohesion and then introduces the implications for development policies.

Social cohesion & the economy: What do we know?

Although social cohesion seems to be highly correlated with socio-economic welfare, it had been overlooked in economic science for a long time and only became more widespread with the seminal paper of Easterly et al. (2006) on social cohesion, institutions and growth. Going beyond the OECD (2011) report that identified social cohesion as a crucial factor for continued growth, this section examines whether growth and cohesion mutually reinforce each other.

Social cohesion and the relation to growth

Social cohesion is a rich concept that – depending on the author – covers economic dimensions (e.g. income inequality), political (e.g. legitimacy and participation) and socio-cultural dimensions (e.g. recognition and belonging). Beyond metaphorical descriptions as the fabric of society or the glue

that holds society together, there is no consensus on a common definition nor on an appropriate operationalisation and measurement. Scholars merely agree that it is a complex and multidimensional concept that captures a characteristic of society measured as a continuum, and that the values and behaviours of individual citizens affect the level of social cohesion and vice versa.

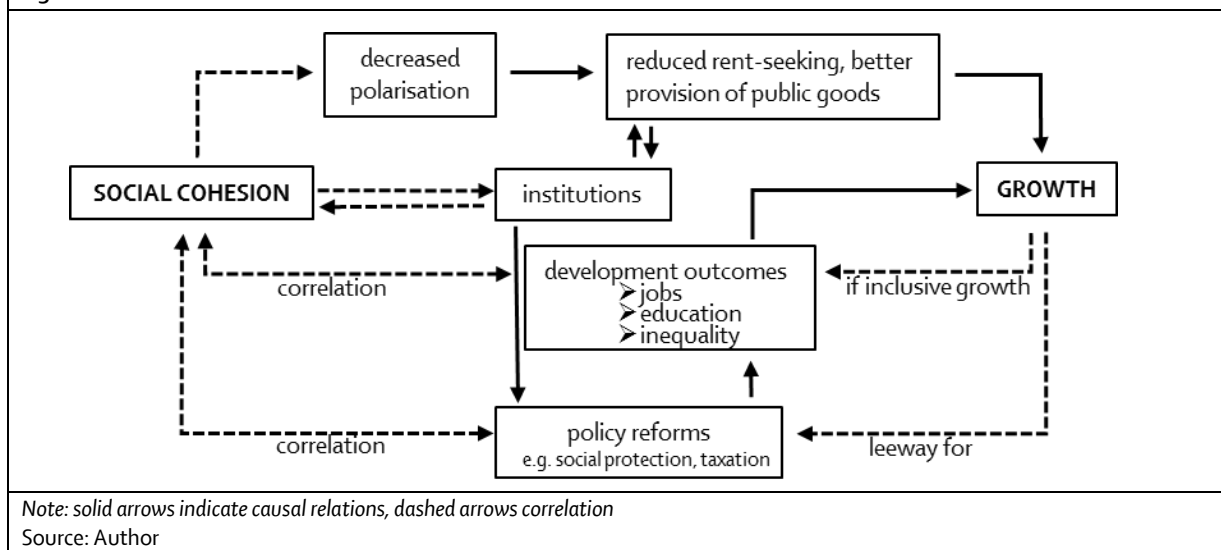
Economists have taken a pragmatic approach to including social cohesion in quantitative analyses; more pessimistically speaking, they have used simple proxies that can, at best, only depict aspects of the multidimensional concept. Whether it was operationalised by trust, civic cooperation, income inequality or ethnolinguistic fractionalisation, economists consistently find a positive relationship between social cohesion and economic growth. First, the positive relation is based on improvements in formal and/or social institutions which, in turn, causally drive economic growth. As visualised in Figure 1, this could be through better institutions affecting whether and how pro-poor policies are designed and implemented so that subsequent improvements in development outcomes foster economic growth. Better institutions also foster growth through the channel of reduced rent seeking and improved provision of public goods. Secondly, some economists offer a slightly different view on the connection between institutions and social cohesion, adding that well-functioning institutions can (partly) compensate for the negative effect of social conflict (i.e. lacking cohesion). Lastly, an additional link from cohesion to growth runs through decreased polarisation within a society, which reduces rent seeking and fosters the provision of public goods, ultimately affecting growth.

The potential feedback loop from growth to cohesion

Evidence of a relationship from economic growth to social cohesion is even more scarce, signalling the considerable need for more research. The lack of rigorous analyses does not allow the identification of causality nor of the direction of the relationship. Hence, no clear picture emerges.

Keeping these limitations in mind, the literature can be interpreted as suggesting two potential mechanisms within the economic realm through which growth could positively influence social cohesion: development outcomes and reforms. Policies for growth, development and reforms have to be inclusive, otherwise they might turn out to nourish grievances and dissatisfaction and undermine the bonds holding society together. In general, the two mechanisms affect social cohesion through their positive, but varying, contributions to social identity, networks and fairness.

Inclusive growth may improve the livelihoods of significant proportions of society by *creating employment*, *decreasing inequality* and *advancing access to* and achievements within *the education system* (see Figure 1). These three variables have been shown to be positively correlated to social cohesion. Education, for instance, contributes by (i) shaping and transmitting certain shared values and a sense of belonging to a society (social identity), (ii) fortifying social capital and inclusion (networks), and (iii) levelling the playing field for

Figure 1: Interrelations between social cohesion and economic factors

children from different socio-economic backgrounds (fairness). Countries with more inclusive educational systems also reveal higher trust between social groups, which indicates that equality in educational outcomes is decisive for cohesion. The important interrelation between jobs and social cohesion is described in Box 1.

Growth may further generate new resources and increase trust and support among citizens towards the current government, which creates leeway for policy reforms

Box 1: Jobs and social cohesion

The World Development Report 2013 of the World Bank (2012) finds employment to be positively correlated with social cohesion. Lack of jobs or job loss, in contrast, is negatively correlated with trust and civic engagement independent of the national income level. In extreme cases, the lack of jobs and hope, especially among the youth, may spark social unrest, violence and crime.

The report is based on the theory of change that jobs strengthen social cohesion through their effects on social identity, networks and fairness. Jobs empower formerly marginalised groups, fuel both self-respect and social identity, and spur participation in society. The working place connects people from different ethnicities and social backgrounds, allowing the cultivation of trust and changes in attitude and behaviour. The perception that jobs are distributed according to educational and professional merit nurtures the belief that one can improve one's living conditions and have a stake in society. Widely available decent jobs have the potential to reduce inequalities and create a strong middle class with shared future expectations and aspirations based on a stable society.

The relation between employment and social cohesion is highly context specific and depends on the social, political and cultural environment as well as the relevant institutions. Moreover, the relation is unlikely to hold for exploitative, repressively organised and precarious jobs, as such employment does not nourish social identity, networks and fairness, but grievances and frustration. Lastly, one has to be aware that the relation between jobs and social cohesion may run both ways: high levels of social cohesion create environments conducive to investment and job creation.

conducive to social cohesion. It creates financial room for manoeuvre to implement social protection schemes such as social pensions, unemployment compensation, health coverage and cash transfer programmes, or to implement education and youth employment programmes. Social protection expenditures have been found to be positively correlated with social cohesion. Tax reforms may constitute another lever to form more cohesive societies.

To emphasise this again, the described potential feedback loop from growth to social cohesion is merely based on correlation analysis. This means that it is equally plausible (or even more plausible) that the relation runs the other way round: more cohesive societies trigger inclusive policy reforms and improved development outcomes, which, in turn, foster growth. Clearly, there is need for more research.

Implications for development cooperation

Development cooperation, particularly that involving Germany, has increasingly focused on economic development in general and the promotion of the private sector and enterprises in particular. This is reflected in recent strategies to attract and leverage private-sector engagement and investments. Such an approach might be necessary to provide the financial resources for implementing the Sustainable Development Goals, but it is problematic for at least two reasons.

First, the approach falls short of recognising the role of peaceful, just and inclusive societies as well as equality in sustainable development, which is stressed in the 2030 Agenda. The 2030 Agenda makes these elements important pillars for sustainable development and thereby emphasises the significance of social cohesion. Development cooperation that focuses merely on economic development falls short of the aspirations of the 2030 Agenda if it is not complemented by additional efforts. In most cases, however, explicit links between economic development and social cohesion are not part of development cooperation strategies. One reason for

this might be the complexity and multidimensionality of the concept. As indicated above, both policymakers and scholars struggle to fully grasp the concept and to come up with a single, agreed-upon definition. DIE currently develops a social cohesion measure in the ongoing research project "Social Cohesion in Africa", proposing a slim and clear-cut concept which restricts itself to inherent constituents of social cohesion: trust (between citizens and towards the state), (group and national) identity and solidarity (cooperation for the common good).

Second, agents need to specifically integrate mechanisms that foster social cohesion into strategies for economic development in order for development cooperation to contribute to counteracting the drifting apart of a society (or at least not harming its "togetherness"). Even though cohesiveness is a quality and characteristic of society that is hard for donors to influence, its relevance to development cannot be neglected – not only because it is a valuable goal in itself, but also because it provides social, political and economic stability, and thus enables and ensures the impact and sustainability of development cooperation and economic growth.

It is insufficient simply to assume that economic development will directly or indirectly contribute to cohesiveness. After all, there is a lack of evidence that economic development mechanically raises social cohesion. It requires prudent policies which ensure that growth is inclusive and that subsequent development outcomes (employment, inequality and education) foster social identity, networks and fairness. These channels are clearly linked to the three elements of social cohesion (trust, identity, solidarity) and thus advance cohesiveness. Stated differently, social cohesion is primarily a social phenomenon focusing on relations between societal actors and institutions. The above-mentioned channels ensure that changes in economic realities translate into changes of social and societal realities that strengthen the societal bonds.

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Policy considerations

This leads to the following considerations for policymakers, charities, NGOs and think tanks to strengthen social cohesion:

1. Recognise the importance of social cohesion in development strategies.

Social cohesion is a valuable goal in itself and a key condition for the impact and sustainability of development cooperation and economic growth. In terms of the bigger picture, inclusive and cohesive societies play an important role in sustainable development. This is acknowledged by the 2030 Agenda, which makes reduction of inequalities and peaceful, just and inclusive societies one of its pillars. Any development cooperation that attempts to fully align with the 2030 Agenda thus needs to embrace social cohesion.

2. Consider at least three elements in support of social cohesion.

Social cohesion is a complex and multidimensional concept. Accordingly, there is no single, agreed-upon definition of social cohesion. The inherent constituents amount to at least three elements: trust, identity and solidarity. Successful support of any of the three individual elements is likely to make a difference for social cohesion in a given society.

3. Integrate mechanisms that foster social cohesion into strategies for economic development.

There is no automatic link between economic development and social cohesion. Hence, merely focusing on economic factors is not a sufficient contribution to counteract the drifting apart of a society. Policymakers and practitioners need to go one step further and try to ensure that growth and economic development translate into increased social cohesion. Potential levers are policy reforms, e.g. in the field of social protection and taxation, and inclusive improvements in development outcomes (employment, inequality and education).