

## Social capital and technological change in the information age

### Conversation with Francis Fukuyama

FRANCIS FUKUYAMA is Omer and Nancy L. Hirst Professor of Public Policy at George Mason University. Fukuyama is a political philosopher and foreign policy expert widely known for his books *The End of History and the Last Man* and *Trust: The Social Virtues and the Creation of Prosperity*. Francis Fukuyama was Deputy Director for European Political-Military Affairs of the US Department of State. He received his B. A. from Cornell University in Classics, and his Ph.D. from Harvard in Political Science.

In this conversation, Fukuyama tells us that a low trust society may have the right macroeconomic policies, but if it does not have institutions in which people have confidence, the public policies will fail. He also provides some guidelines to cope with distrust in government. Fukuyama answers different questions related to the social actors that create trust, the "transaction cost" in low trust societies and the primary forces of social change and globalization. In a final question, Fukuyama expresses optimism about the balance of globalization. He is confident that the unexpected forces of social order can manage negative effects of globalization such as environmental damage, AIDS and crime.



**What is social capital and what patterns have you recently identified?**

Social capital is the capacity of individuals to work together in groups and organizations in order to reach common goals. This collective work is based on both economic rationality and the trust embedded in the habits of the community. Social capital is declining almost everywhere in the developed world, certainly in USA, but also in Europe. I am writing a book called *The Great Disruption*. It is about social disruption of social norms that has occurred since the 1960s almost everywhere in the industrialized world. For example, I have been following the crime rates. Crime began to increase in the USA very dramatically in the 1960s, but then turned out to increase almost everywhere in the developed world in the same time period. You have the same decline in the nuclear family that has occurred in the USA and in many other societies as well. I think we are dealing with a broader phenomenon.

**How does technological change modify social relationships and labor markets?**

The thesis in my new book is about the big change. You have to explain the timing, why it happens in different degrees in different countries; it really has to do with gender relations. I think the biggest social revolution has occurred: women are moving into the work force, being able to control their own reproductive cycles, and so forth. Certainly in the USA it is directly related with to the decline of the nuclear family, as a result, and a lot of social problems come about. I am supposed not to be misunderstood. Women might think that I argue against female equality, which I do not; I am thinking about the consequences of living in that kind of society. Labor markets change a great deal. In the information age, women do some tasks in the labor market better than men do. This has a tremendous impact on everything.

**Is the lack of social capital an obstacle to economic development? Is there any future for low trust countries?**

I never really argue that the lack of social capital is an obstacle to economic development. This is a big misunderstanding of my book *Trust*. The central issue is the one most economists talk about: you have the right set of macroeconomic policies, monetary

policies, institutions that work effectively, that is, the really socioeconomic development. Social capital contributes to a certain degree, but it is not the central issue. On the other hand, the problem right now in a country like Mexico is a problem of trust and confidence; you have the right policies, but you do not have institutions in which people have confidence, particularly in terms of enforcing property rights and a judicial system that maintains a kind of impersonal rule of law. In a sense that is the biggest obstacle now to Mexico's development. It is not figuring out what the right policy does; I think people understand that. It is more fixing the institutional mechanism so that people have confidence. This is not possible if people think that when the government does something it is really doing something else as a result of corruption or conspiracy.

**Although we do not have reliable institutions, could we partially solve that problem at the microeconomic level? I am thinking of certain corporations that make commitments within themselves**

I do not think governments have the capacity to create trust on a national basis. On the other hand, individual organizations may create a certain degree of corporate culture. In a firm, you have CEOs who create certain norms and values that are shared by employees in the company; that is to create social capital.

**What is the cost of a low trust society?**

In a low trust society, the "transaction cost" you have to pay is higher. Let's consider the *Mafia* as a trust providing organization. You have to pay to a *Mafioso* 15%, or whatever the transaction cost is, to guarantee the trust the transaction does not have. It is the cost you presumably have to pay if you live in an unsafe society.

**The title of your book is *Trust: The Social Virtues and the Creation of Prosperity (1995)*. On the other hand, the title of Bernard Mandeville's book is *The Fable of the Bees: or Private Vices, Public Benefits (1729)*. It seems that you and Mandeville have opposed ideas about the role of virtues and vices creating public prosperity**

That was a classic paradox. It is a problem that people still have in capitalism. Theories of capitalism all along argue that "pursuing the public good by simply pursuing your own self interest" is sufficient to make the markets work and to make them efficient. This

argument is not true in many respects. Actual firms do not operate in a purely self-interested way in capitalist economies. They are social organisms, people have relationships within the work place and between companies; all of those shape the economic relations in very important ways.

**Everyone controls his vices, like envy or greed, within the implicit “rules of the social game.” Could we create a “functional” morality to move the gears of economic development and reach prosperity?**

That is very necessary. I think most countries, as they develop economically, tend to develop institutions. Once an economy has really opened up to global competition, in some sense, corruption becomes a little bit harder. For example, Mexico, fifteen or twenty years ago, had a huge state sector, which was an invitation for political corruption. The more you privatize, the less opportunity you have to sell certain kind of political favors. Nowadays, you have to compete against other companies in the global market place. If a company simply prospers because it can bribe a politician to get a license of some kind, it will have problems if it has to compete with a Korean or European company that is more efficient. It puts more pressure on the organization to get rid of social inefficiencies.

**In February 1997, *The Atlantic Monthly* published an article by George Soros that says that “not everything successful in capitalism is moral.” What do you think about it?<sup>1</sup>**

Everybody knows that at some point markets need to be regulated because there are certain dangers, such as excess of speculation, problems in wealth and income distribution, and so forth. I do not really see he says anything particularly new that any observer of markets would not have known about theories. He made a lot of money doing exactly the kind of things he was criticizing.

**Do you think Soros is “an hypocritical capitalist”?**

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<sup>1</sup>George Soros, a billionaire financier, is an investor and a philanthropist, and the chairman of the Open Society Institute, an international charitable foundation based in New York. In February 1997, Soros wrote "The Capitalist Threat" in *The Atlantic Monthly*. A year later, he returns to the discussion in a recent article "Toward a global open society" in *The Atlantic Monthly* (January: 1998).

This year (1997), Soros gave a presentation at the World Economic Forum in Davos, Switzerland. Every year, all the world bankers, CEOs and politicians have this meeting. Everyone was very mad. They said “now that you have made your money, you want to make it impossible for the rest of us to make our money.”

**What can be done to cope with distrust in government?**

I do not have a magical answer, but there are three starting points: privatization of public non strategic assets, democracy, and global openness. First, a government which is too big creates opportunities for corruption; second, political competition among different parties reduces possibilities of absolute power and controls corruption; and third, openness to the outside world makes it impossible to protect inefficiencies.

**So, in a sense, do you say that competition enforces the “reality principle”?**

Yes, I think so. If you look at the American corporations, there is a certain degree of corruption, but it always comes in instances where the company has an opportunity to bribe a public official to get a subsidy or something of that sort. In a way, the market itself promotes, to a degree, honesty; you cannot hide from the stockholders that you are not honest internally.

**What parameters should a political philosopher like you consider to understand social change?**

I think that the primary drive of social change is technology, the human attempt to master nature. Technology really does not have an end point of development. Right now, in the middle of the big revolution in biology where we are going to be able to deliberately manipulate human nature, the genetic structure of people, it is very difficult to foresee what is going to be in the future.

**And what about social values?**

Changes in social values are very often driven by changes in technology. Again, to go back to the question of gender relations, the reason women started moving into the work

place is not that they just decided it for ideological reasons; it has to do with the nature of labor markets, changes in the nature of work brought about by changes in technology. If you look at most jobs a hundred years ago, agriculture and industrial labor took a great deal of physical strength. It did not require educational skill; it is a little different today. Even the fundamental social relation between parents and children is pretty much disrupted by technological change.

**Today we have the globalization of capital and markets. But we also have the globalization of environmental damage, AIDS, and crime. Do you think the final balance of globalization is more positive than negative, or do you see a *Blade Runner* future for us?**

I am not quite pessimistic. In a way, this is what my new book is about. There are a lot of unexpected forces of social order that societies can manage to deal with their problems. For example, crime in the USA is going down very dramatically. In New York City, crime has fallen 40 %; it has not been so since the 1960s. I think it is possible for a society to get control over some of these phenomena. It is true that globalization is also spreading a lot of bad things, as well as good things. It is also moving people to resources to deal with the problems they have. Certainly, globalization has benefited much of the world that is participating domestically. In the end I am not sure. There is a constant struggle between forces of order and forces of disorder.