Wealth Creation and the Normative Structures Framework

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Abstract

This paper describes and explores the relationships between the concepts of wealth creation and the normative structures classification of social capital. It finds that economic and sociological perspectives on social capital are complementary and provide a more complete understanding of social capital when merged. Together they offer greater power of explanation and permit a degree of reconciliation of terminology and concepts of sociology and economics. The merged theories offer a deeper and more comprehensive understanding of the dynamics of social capital and its place in the process of wealth creation.

Keywords: social capital, wealth, norms, sociology, economics

1.0 Introduction

Over the last two decades or so, several schools of thought in the social sciences have converged and generated novel ways of assessing development. The goal of this paper is to explore ways in which two of these schools of thought—wealth creation and the normative structures classification of social capital—might be combined to increase their explanatory power. In this paper, these conceptual systems are reviewed and compared to find potential contradictions and complementarities. As we will see, these two concepts are very complementary. Examined, side-by-side, they illuminate each other and offer a deeper understanding of their respective complexities. When applied together, these concepts explain a number of vexing ambiguities such as the distinction between stocks and flows, the public versus private dimensions of social capital, the portability of intangible assets, and the important distinction between place-based assets (i.e. fixed-in-a-geographic place) and individual assets (that move with individuals).

1 The term “development” is intended to be broad and inclusive. It is broader than economic development because it includes social, environmental, and psychological elements. It is sometimes referred to as human development but this is also too narrow.
This paper makes a case for more intensive interdisciplinary discourse around the goals and indicators of development. It argues that economic explanations of dynamic processes are incomplete without sociological concepts, and that concepts such as social capital are stronger when positioned within an economic framework.

The origins of these conceptual themes are not new but each has been popularized since 1990 and even more recently linked to each other. The origins of social capital as a general concept dates back to the 19th century but became a popular topic among social scientists in the late 20th century (Bourdieu, 1985; Coleman, 1988; Granovetter, 1973; Portes, 1998; Putnam, 1995), and by policy makers following a World Bank initiative in the late 1990s and Putnam’s 2000 book, *Bowling Alone*. Since that time, a great deal of research and scholarly literature has elaborated on the concept of social capital and linked the concept to other concepts such as trust, reciprocity and networks. Of particular interest in this paper is the normative structures framework applied to social capital (Reimer 2006, Reimer et al. 2008) which provides a perspective on social capital that is particularly complementary with wealth creation.

Like social capital, the concept of wealth creation is not new. The most familiar historical reference to wealth, of course, is to Adam Smith’s 1776 *The Wealth of Nations*. Smith defined a nation’s wealth as the annual flow of production. More recent economists such as Ricardo and Marx were concerned with the valuation and distribution of wealth. Today, the issues of growth, distribution and sustainability of wealth have arisen again with the concerns for sustainability (Arrow et al., 2010) and the publication of *Capital in the Twenty-First Century* (Piketty, 2014).

The stock of wealth has long been a measure of economic success and a basis for comparison among individuals, classes and nations. Despite this, the standard indicator of macro-economic performance has long been the annual flow of gross domestic product (GDP), gross national product (GNP), or nation income (NI). The modern system of national income and product accounts (NIPA) dates back to the 1940s when economists such as Simon Kuznets formalized the methods for estimating national income. Today, enormous significance is placed on the level and variations in the rate of GDP growth. National and regional economies, and sectors within economies, are compared using GDP levels and growth rates. Most economic policies are evaluated in terms of their likely impact on GDP and jobs.

However, wealth has recently been proposed as an alternative to GDP as the primary goal for economic policy. Advocates for rural development have been particularly supportive of this strategy. Leading this trend are the World Bank (1997), the USDA (Pender et al., 2012), and the Ford Foundation (Creating Rural Wealth, 2013). Thomas Piketty’s book, *Capital in the 21st Century* (2014), has raised scholarly and political interest in wealth and the distribution of wealth. What makes this trend different from previous trends in economic development scholarship is that wealth is being defined very broadly to include all types of tangible and intangible wealth. The recognition of “non-tangible” wealth moves us from economic wealth to considerations of welfare, well-being, utility, happiness and other components of the familiar saying “there is more to life than money.” This strategy for economic development is explored in detail by Pender et al. (2014).

The goal of this paper is to explore the similarities, differences and complementarities between the normative structures framework for understanding social capital and the comprehensive wealth creation framework.
2.0 The Elements of Comprehensive Wealth Accounting

2.1 Stocks Versus Flows

Hoffer and Levy (2010) provide a very nice starting point for our discussion. They point out the importance of distinguishing stocks and flows. Production, consumption, saving, investment, and depreciation are economic flows. In contrast, wealth (a stock) is the net cumulative effects of these flows. Production, receipts, and gains are in-flows, while consumption, expenditures, losses are out-flows. It is important to remember that consumption, while a reduction in wealth, is the key to our quality of life and prosperity.

Our most widely used measure of economic performance is Gross Domestic Product. GDP is a gross flow measure that ignores changes in assets. Wealth is a stock measure which is valued at a point in time and changes over time due to changes in the stock of assets. Combining and linking our stock and flow accounting is essential if we hope to understand the process of wealth creation. For example, we should ask, “Are the flows into local stocks of wealth creating new wealth or are they simply transfers from the stocks of other communities?” Furthermore, “Who owns these stocks, and thus who claims the flow of returns generated by the stocks?”

2.2 Assets, Liabilities and Wealth

The term wealth, as used by economists and financial analysts, is equal to assets less liabilities. Liabilities are frequently ignored in discussions of wealth creation, but the concept is a necessary part of the wealth accounting process for two important reasons. First, an individual or firm may have nominal control over assets that they do not own or which are encumbered by mortgages or deed restrictions. In effect, certain rights to these assets are owned by others who share the returns and risks associated with the assets. The second reason for accounting for liabilities is that everyone’s liability is someone else’s asset. Since these liabilities may be owned by non-residents of a country or region, liabilities are a key factor in distinguishing people-based from place-based wealth.

2.3 Types of Assets (Capitals)

Clearly, a comprehensive accounting of wealth must include all assets which contribute to the flow of benefits to individuals. A number of classification schemes have been proposed for capital. Some are as simple as the four types described by Ekins et al. (2008)—manufactured, natural, human and social/organizational. Pender et al. (2014) identify eight types of capital—financial, physical (built), natural, human, intellectual, social, cultural, and political. Numerous alternative classifications of assets have been proposed in academic research and in common parlance. All classification schemes have merits and limitations. In some cases natural capital is divided into natural resources, land and ecosystems (UN, 2003). Other classification systems include historical capital or combine social and political capital. Whatever classification scheme is chosen, it is important that important assets are not overlooked and not double-counted.

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2 GDP represents the total value of goods and services produced within a given time period, usually a year. The fact that it reflects a value over a period of time makes it a flow measure.
Financial capital is frequently included as one category of capital but a careful review of accounting issues will reveal that, while quite recognizable, financial capital is not a unique form of asset, but rather an instrument for valuing and identifying ownership of other assets, usually built and natural assets. Financial assets are contractual claims that may be exchanged for other tangible or intangible assets. They derive value because they represent an ownership interest, direct or indirect, in potentially productive assets. Financial assets include cash, bank deposits, stocks, bonds, liens and contractual obligations. Financial assets vary in liquidity, potential rate of return and risk. At one extreme are non-guaranteed and uncollateralized equity investments, and at the other extreme is cash—a zero return, low risk asset.

The various types of capital are sometimes complements and other times substitutes in the production of societal benefits. Renewable resources are substituted for non-renewable resources as they are depleted, but human capital and social capital complement each other in many cases. Substitutability of capital is essential to sustainability since many types of natural capital are non-renewable.

To measure comprehensive capital, an accounting system must explicitly identify each type of capital. Furthermore, for each type of capital included in the accounting framework both the current account (flows into and out of the stock) and the capital account (stocks) must be identified.

2.4 Willingness-to-pay\(^3\) and Property Rights

Wealth is the summation of net assets. Asset and liability values are determined by (1) individuals’ willingness-to-pay for these assets or the services they provide, and (2) the property rights that individuals and communities have with respect to these assets. In the absence of market failure\(^4\), the willingness-to-pay for a market-based asset is approximately equal to its price. For non-market assets, and assets subject to market failure, willingness-to-pay is the assets’ worth to their owners, relative to other assets. For externalities (i.e. one form of non-market assets or liabilities), the value is the willingness-to-pay to increase the positive externality or the willingness-to-pay to reduce the negative externality.

Property rights are the degree of de facto control that an individual or group holds over assets. Property rights define shared interests in, and the ability of individuals to expropriate value from, assets. Consideration of property rights facilitates our treatment of externalities, joint ownership, public sector interests in private property, and other qualitative aspects of asset ownership. It also allows us to include the value of assets that provide non-market goods and services (such as natural amenities) and publicly owned assets (such as transportation infrastructure).

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\(^3\) Willingness-to-pay is defined as the maximum amount a person would be willing to pay, sacrifice or exchange in order to receive, retain, or avoid something. The willingness-to-pay of the marginal buyer equals the perfectly competitive price in the case of a market good or service. In general, willingness-to-pay is somewhat greater than price because the price is revealed at the level of the bid (of the buyer) or the asking price (of the seller) for the ‘marginal’ (or ‘last’) participant in the market. The willingness-to-pay includes the values assigned by the infra-marginal “bidders”.

\(^4\) “Market failure” is the term used by economists for cases where the market price fails to account for the value of positive or negative externalities associated with the good or service being produced.
The value of real wealth will change with fluctuations in the willingness-to-pay for assets and with changes in the level of de facto control that individuals or the public have over the assets. Thus wealth creation can be achieved by strengthening property rights and/or by improving market efficiency.

2.5 Place-based versus people-based assets and wealth

National income and product accounts can take two different accounting stances—people-based or place-based. Gross Domestic Product is a measure of the total production (i.e. the flow over a period of time) within the borders of the country (or whatever the geographic stance) regardless of the ownership of the products or assets used to produce the products. Gross National Product is a measure of total production by assets owned by residents (nationals) of the country, regardless of the location of the production or the assets used in the production. Thus GDP is a place-based measure of production while GNP and National Income (NI) are people-based measures of production.

Similarly, both place-based and people-based measures of wealth are possible. People-based wealth is the aggregate wealth of residents regardless of where their assets are located, while place-based wealth is the aggregate wealth of a nation or region regardless of the residence of the assets owners. A region’s place-based assets include the local assets of residents but also those owned by non-residents. For example, a region’s place-based wealth includes all the forests, minerals, infrastructure etc. within its boundaries. But the region’s people-based wealth is much lower if the land and mineral rights are owned by non-residents, and if the region has outstanding bonds that were sold to non-residents to build its infrastructure.

All assets (stocks of capital) of all types are included in both people-based and place-based wealth. The difference between a region’s place-based wealth and aggregate people-based wealth depends on the location of peoples’ assets and liabilities and the incidence of externalities (negative and positive) generated by these assets.

Piketty (2014) demonstrates how the patterns of asset ownership, that is the difference between national and domestic product, are important to wealth and wealth distribution at the international level. At the sub-national level it is equally important, and possibly more dynamic because of greater spatial mobility of individuals, and lower restrictions on capital movement (i.e. buyers and sellers transferring the ownership of the capital). A places’ wealth is often much different from the sum of the wealth of its residents because of tax policy, migration patterns and property ownership patterns.

2.6 Public versus Private Assets

Piketty’s (2014) examination of the dynamics of national and international wealth illustrates the importance of considering public and private assets together. Their relative size and rates of growth are partially determined by public policy. Publicly owned assets and assets owned in common (roads, schools, parks and clean air) provide services to residents just as their private assets do. The value of public assets to residents, less liabilities (usually bonds, treasury bills, etc.), is a component of both the place-based wealth and the people-based wealth of all individuals able to enjoy the public assets. Thus a comprehensive accounting of wealth requires the identification of the beneficiaries of public assets and, on this basis, the estimation of the aggregate benefits generated by these assets.
Public assets are typically financed through taxation. The right to tax is essentially a property right held by residents and assigned to the taxing authority on behalf of residents. Since an asset’s real value is the present value of the stream of net benefits made possible by the asset, taxes levied on the asset or on the flows of benefits from the asset reduce the benefits flowing to the owner of the asset, thus reducing these assets’ values to the owner. For example, higher property taxes by themselves make the property less valuable to a buyer. However, the public services and infrastructure made possible by these taxes will generally increase the productivity of the asset (the flow of benefits from the asset), thus increasing the aggregate value of the region’s private assets. If the stream of benefits from public investments and program exceeds the costs imposed by taxes, then the government has created wealth.

From the perspective of local residents, local taxes are appropriations of local wealth since they are used either to create a flow of benefits to residents (services and amenities), or are invested in place-based assets (infrastructure, education, etc.). In either case they convert private asset value into public asset value. The public assets may be of lesser or greater value than the private assets they displace, depending on the productivity of the assets created by the public. National and state taxes on the other hand are expropriations of regional wealth “if” the taxes are not re-invested in the given region. Taxes paid to non-local governments reduce the value of private regional assets, but do not necessarily increase the public assets of the region. They may, however, increase the value of assets of residents if the state or national government invests in public assets that benefit the region’s residents. Since many local taxes are paid by residents and non-residents alike, local taxes replace some assets owned by non-residents with assets that are ‘owned’ by residents. Who pays taxes and how the revenues are spent determines if local people-based wealth is increased or decreased by these local taxes.

2.7 Public Services, Taxation and Regulation

The public sector also affects the value of private assets 1) by influencing the willingness-to-pay, 2) by allocating and strengthening property rights, and 3) by redistributing wealth through taxation and transfer payments. Taxes, subsidies and regulations all influence asset values directly by changing the flow of net private benefits produced by the assets. In addition to these direct effects on wealth, government programs have indirect effects by strengthening, weakening, or redistributing property rights. Generally, when government is effective in strengthening property rights the result is reduced transaction costs, thus increasing the flow of benefits from privately owned assets. However, both under-regulation and over-regulation will generally lead to increased transaction costs, reducing the value of assets.

Comprehensive wealth complicates the measurement challenge by introducing multiple forms of wealth, only some of which are taxable, and which are regulated in very different ways. Strong, enforced, property rights for tangible, intellectual and financial capital assure owners that they are able to enjoy the benefits produced by

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5 Here the term appropriation is used to mean assets devoted to a special purpose, in contrast to expropriation which is the taking of assets. These terms are meant to distinguish cases where wealth is converted from private to public from those cases where there is a reduction in local wealth because the tax revenue is spent / invested in another locality.
their assets. Human capital is protected by labor, occupational safety and civil rights laws. Clearly defined property rights reduce transactions costs but some types of regulations may increase rather than decrease market transactions costs. Social capital is neither (directly) taxed nor (directly) regulated. In fact, social capital often minimizes the need for strong regulations. Trust (or the lack of trust) becomes much more important when regulation of markets is weak or unenforced. As we will see later, different types of social norms deal with property rights and transaction costs in different ways.

2.8 The Mobility of Capital

It is important to distinguish between the concepts of people-based and place-based capital, public and private capital, and the mobility of capital. All capital is included in both people-based and place-based measures of capital. One place’s place-based capital is included in another place’s aggregate people-based capital if the capital has absentee owners. Mobility of capital refers to the ability of individuals to take the capital with them when they move. Most publicly owned local capital is immobile. People must live in an area to fully enjoy and benefit from local public capital. When people move to another location, they no longer benefit from the schools, streets and local parks in their former location. Private capital varies from being completely mobile to being completely immobile. Both public and private real estate (built and natural capital) is completely immobile. Individuals may retain ownership of private real estate when they move, but this capital physically remains in the original location. The individual’s wealth when they relocate is in the form of financial capital. When a property owner moves to another region, the place-based wealth in the region of origin is unchanged but aggregate people-based wealth of the region declines because the wealth of former residents is no longer included in the region’s aggregate people-based wealth. In contrast, human capital is quite mobile. Even place-specific knowledge (where to get a good cup of coffee, for example) moves with individuals but may be significantly devalued by the move. Note that knowledge of a place’s social norms is a form of human capital. Individuals who understand the social norms of a new location can invest in new social relationships at a lower cost, thus making migration less costly.

In this paper we are primarily interested in social capital. Some social capital is mobile while other social capital is not. Public social capital (social capital in which groups invest and own communally) is not mobile, though it may decline in value when an individual moves away. Private social capital (defined as the value to an individual of belonging to a network) may be mobile, partially mobile, or immobile. Social capital among members of professional networks tends not to depend on where its members reside. While relationships often require regular face-to-face meetings to maintain, relationships are not weakened significantly over distances. Other social capital is partially mobile (i.e. retains value when an individual moves) since relationships have value to individuals over significant distances. Alumni associations, for example, can be maintained when individuals move to another region, even though distance depreciates its value. Other private social capital is mostly immobile. A person’s investments in local service organizations,
neighborhood associations, and private clubs are lost when the individual moves to another region.

Together, these concepts—stocks versus flows; assets and liabilities; multiple forms of capital; willingness-to-pay and property rights; place versus people based accounting; public versus private capital; public services, taxation and regulation; and mobility of capital—provide the basis for a comprehensive wealth accounts. Johnson et al. (2014) describe such an accounting system in detail. This system demonstrates the role of savings; investment; returns on investment in all types of capital; depreciation, consumption and obsolescence of these capitals; inheritance; charity; demographic change; taxes; transfers; and various types of policy on rural income and wealth.

Johnson et al. (2014) also discuss some of the challenges involved in measuring comprehensive wealth, including a caution regarding double-counting capital. All forms of capital, including social capital are important inputs into economic processes. As we will see, social capital plays an important role in reducing transactions cost. Since the value of the reduction in transactions costs increases the flow of net benefits from built, natural and financial capital it increases the value of these other capitals. Thus when measuring comprehensive wealth one must count this value only once and thus avoid double-counting its value when calculating “total” wealth.

3.0 Normative Structures in Social Capital

In this section we consider the second theme—the role of normative structures in social capital as articulated by Reimer (2006) and Reimer et al. (2008). Numerous papers have been devoted to debating alternative definitions, classifications, and characteristics of social capital (Bourdieu, 1985; Coleman, 1988; Granovetter, 1973; Portes, 2000; Putnam 1995). We will not get involved in that debate here. Instead we focus on describing the normative structures framework and exploring the complementarities between this view of social capital and the comprehensive wealth framework.

Sociologists and economists often define and use terms quite differently. Social capital is ripe with opportunities for confusion over terminology. The term normative is used quite differently by sociologists and economists, for example. In the current context we use the sociologist’s meaning, in which normative refers to the system of norms which are socially constructed and differ from context to context. These norms are shared and recognized, formal or informal expectations of members of social groups. Social norms often are associated with incentives and sanctions which influence the behavior of members. Normative structures are

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7 In economics, as in philosophy, the term normative is used somewhat differently than in sociology. Normative economics deals with ideal conditions and outcomes. Normative or welfare economics is a study of conditions that make people and society better off. In sociology the term ‘normative’ is meant to be descriptive rather than prescriptive; referring to generally recognized or promoted standards or values of behavior. The related term ‘normatized’ is used to indicate that some process has been guided or restricted by norms. When reading this article, economists are encouraged to substitute the word “protocols” (or “rules”) in place of the word “norms” or “normative” to re-enforce the idea that norms are about an agreed way to proceed (and not the economist’s view that normative is the ideal way to proceed).
systems of social norms that work in concert to influence behavior. Reimer et al. (2008) point out that, “…it is the norms that provide the ‘rules’ of interaction within these networks” (2008, p. 256). In conceptualizing the role of normative structures in the development, use and evolution of social capital Reimer et al. (2008) go on to say that,

We argue that 1) social capital is organized in different ways by the normative structures in which it is embedded; 2) there are important interactions among these types of organizations that are often overlooked by simpler frameworks; 3) that a useful distinction can be made between available social capital and used social capital; 4) that access to social capital can be employed to analyze power relations; and 5) that by distinguishing the ways in which social capital can be organized, our framework makes issues visible that others may overlook (p. 257).

The final point is of particular interest in this paper. How might the normative structures framework illuminate features of social capital in ways that will clarify the role of social capital in comprehensive wealth creation? Can the comprehensive wealth framework help us understand the dynamics of social capital?

The normative structure framework employs a number of terms that could cause confusion if used differently than in the economics literature. Reimer et al. (2008) state that, “…Social capital is one type of asset or resource that can be used to achieve these valued outcomes” (p. 258) and later that, “…we will treat social capital as a stock that can be drawn upon primarily, but not exclusively, for economic ends” (p. 259). These terms, used in these contexts, are quite consistent with the way that economists use the terms. Furthermore, this view of social capital as a stock of capacity in which individuals, firms and governments may invest in order to produce value is also consistent with the view of social capital in the comprehensive wealth literature.

Reimer et al. (2008) go on to conceptualize the normative structures framework. They argue that while the structure of networks is important, it is also important to understand the relationships, especially norms, linking members of networks. They define norms as “…the ‘rules’ by which people coordinate their actions along with systems of sanctions and incentives that ensure consistency in those actions” (p. 259). They argue that trust, “…is therefore not a defining characteristic of social capital, but is rather a consequential component of normative structures. It is a spin-off of norms, since it refers to one’s expectations that individuals will follow the formal or informal rules regarding social relations” (p. 260).

Key to this framework is the distinction made between four types of normative structures involved in social relations. These are the market, bureaucratic, associative, and communal normative structures (Reimer, 2006; Reimer et al., 2008). Briefly, market-based norms are formal and informal norms that influence or normatize market transactions. Examples of market norms include expectations regarding acceptable goods or services for exchange, tipping, the acceptability of price bargaining and implicit guarantees. Bureaucratic norms are largely formal norms that influence the relations between organizations and their clients. Examples of this type of norm include the expectation that individuals in official roles will
behave according to the rules and regulations of the organization and that entitlements will be consistent with the organization’s mandate. Associative norms influence or normatize the relationships in networks formed to achieve common goals. This type of normative structure is the most commonly found in networks such as volunteer groups, hobby groups, etc. and includes norms supporting the network’s objectives and values. The final type of normative structure, communal norms, emerges from shared identities and includes family groups, gangs, ethnic groups, etc. This type of norm is largely informal and is based on loyalty and obligation (often inherited).

4.0 The Role of Normative Structures in Comprehensive Wealth

Based on this brief description of normative structures, we now consider the potential utility of this framework in understanding comprehensive wealth creation. In particular we hope to place these concepts within two dimensions of comprehensive wealth—private versus public wealth and the mobility of wealth.

In general, all four types of norms can simultaneously be involved in any social relationships. From a wealth accounting perspective, social interactions may involve investment, consumption, depreciation or a combination of two or three of these. Social investment occurs when individuals or collectives (governments, associations, clubs, etc.) expend resources (time, financial capital, social capital, political capital, etc.) to build their stock of social capital. Examples of this include volunteerism, philanthropy, earning certificates and licenses, and investing time with family and community members. Public bodies invest in social capital by efficiently regulating markets, reducing so-called red-tape, prohibiting discrimination not based on merit, recognizing civic contributions, financially supporting social organizations, and supporting community events with programs to strengthen families. Social capital consumption occurs when individuals or collectives exploit their stock of social capital to respond to emergencies, gain support for public investments, and support redistributions of wealth and other activities designed to benefit individuals and communities. Social capital depreciates with disuse, misuse and overuse. Both individuals and public bodies must continuously invest in social capital in order to avoid its decline.

It is important that the distinction between private and public social capital is clear. Private capital is created when individuals invest in their homes or automobiles, stocks and bonds, or businesses. Private social capital is created when individuals invest in relationships with others. In return for these investments, they enjoy such private benefits (i.e. benefits to the person) as improved access to information, reduced transactions costs, reduced costs of credit, reduced prices for goods and services and many other benefits. Using this social capital, individuals are able to more effectively participate in market activities, elevate their status within bureaucratic systems, strengthen their status in formal and informal groups, and nurture their status in familial and communal relationships. The individual’s social capital and therefore economic wealth is influenced by each of the types of norms discussed above. In addition, non-economic wealth is influenced where social capital improves an individual’s non-economic attributes of well-being.

Public capital is created when the public actors (including governments, clubs, associations, and NGOs) invest in highways and schools, parks, public research and public health, for example. Public social capital is created when the public actors invest in the relationships among their constituents. In return for these investments,
the members of these collectives jointly enjoy such benefits as lower costs of providing services, improved decision-making, lower crime and many other benefits. This public social capital reduces the regulatory and enforcement costs of markets, and the size and cost of bureaucracies. Public social capital and therefore economic and non-economic wealth is influenced by each type of norm discussed above.

Property rights determine the distribution of wealth and income between labor and capital and among individuals, among communities, among nations, etc. But codified property rights are necessarily incomplete given the many situations and differences in context in different places and times. Norms tend to strengthen property rights by clarifying the implications of the rights under particular circumstances. Market norms affect the efficiency of markets by reducing uncertainty, transactions costs, and enforcement costs, thus increasing the value of traded goods and services to both buyers and sellers. Similarly, effective bureaucratic norms assure individuals that their property rights will be enforced and reduce the needed size and complexity of bureaucracies. Associative and communal norms create de facto property rights even when codified property rights do not exist. For example, customary use rights to common land, forests, and fisheries involve associative norms. Thus, effective norms create private wealth for market participants and public wealth for communities, regions, and nations.

Norms are created, maintained and adapted through social processes. Since market transactions occur at a wide range of geographic scales, the homogeneity of market norms varies depending on the type of markets. Market norms in local markets (farmer’s markets and bazaars for example) will have commonalities with those of other local markets but will also include unique norms. Tipping levels, forms of payments and types of contracts are examples of market norms that are often locally distinct. Norms that influence global markets are much more homogeneous. The growth in e-commerce is leading to the growth in norms with a global scale. When individuals migrate, some portion of their investment in local market-normatized social capital in their former location is made obsolete by their move. Following their move they must adjust to, and reinvest in (learn), the market-normatized social capital of their new home. The further people move, especially to other countries and cultures, the greater the effort required to learn the new norms. One of the consequences of globalization (i.e. the integration of markets) has been a homogenization or standardization of market norms which means that the cost of learning about market norms in other countries or regions has fallen over time. Examples of individual investments in social capital influenced by market norms include an understanding of the locally-specific aspects of “reputation” that increase the likelihood of attaining a loan from a local lender. Market norm related investments by public or collective bodies are more common. Public markets, cooperatives and credit unions are examples of this type of investments.

Bureaucratic norms create formal protocols that, in turn, influence the level and distribution of social and financial wealth. Bureaucratic norms are created, maintained and revised through systems of governance. The public invests in bureaucratic-normatized social capital by building confidence in its bureaucratic institutions, by reducing so-called red-tape and educating residents about its bureaucratic processes. Individuals invest in bureaucratic-normatized social capital by shaping their status with respect to the bureaucratic protocols. Individuals can change their marital status and citizenship, and earn degrees, diplomas, licenses or certificates for example. These investments have human capital components, but
their social capital value comes from the status they confer on the individual when interacting with bureaucracies. These types of investments are transportable outside the jurisdiction of the bureaucracy if one’s “status” is recognized in similar ways by bureaucracies in other locations. However, if certification and licensing standards differ, or if culture or ethnicity generate “status”, then one’s status is recognized differently in different locations and this type of social capital is place-specific and immobile. As in the case of market norms, international treaties, free trade agreements and other consequences of globalization have led to a homogenization of norms and reductions in the costs involved in learning new bureaucratic norms.

Associative norms regulate relationships among members of groups and usually include both formal and informal norms. Associative norms primarily influence decisions related to investment in, and use of, private social capital. These norms determine who may become a member of a group, the costs and benefits of membership and the nature of benefits conferred. Associative norms affect individual investment decisions such as membership in clubs and organizations, volunteering, voting, etc. The public invests in social capital by legitimizing the norms of groups. For example, a government may prohibit discriminatory practices of clubs or businesses. Communities may encourage the establishment and growth of various types of formal and informal groups. Depending on the scope of the groups involved, associative-normatized social capital may be mobile or immobile. Members of national or global professional organizations can usually move without losing the value of membership. On the other hand, investments by individuals in local groups, such as volunteer organization, recreational groups, service clubs, etc., are immobile. Out-migration of members leads to a loss of both private and public social capital. An important difference between these mobile and immobile types of associative-normatized social capital is the degree to which their norms are formal (dominant in national and global groups) and informal (dominant in local groups) for example.

Finally, communal norms influence the relationships among family, ethnic, and other homogeneous social networks. These norms are almost always informal. Individuals invest in communal relationships with the expectation of support from and for other members. Examples of private investment influenced by communal norms include time spent on family relationships and personal communication. The public invests in and strengthens communal norms by clarifying and reinforcing expectations about communal relationships. For example, investments in family-leave programs encourage family members to support each other. Parent-teacher associations encourage the participation of parents in the education of their children. The returns to these public investments include lower crime, lower social welfare costs, reduced need for family services, and increased efficiency of educational and other public services. Communal-normatized social capital is weakened by distance between individuals but can persist over long distances using communication technology and occasional face-to-face meetings. Communal-normatized social capital is therefore partially mobile.

Yet another dimension of norms important to mobile populations is the cost of investing in norms in a new location. It is quite possible that while more easily lost as a result of migration, market and bureaucratic normatized social capital is easier to re-establish following a move than is associative and communal normative social capital. This would be an interesting empirical issue to explore.
Table 1 summarizes examples of private and public investments for each type of norm. Note that investments in social capital will typically be influenced by more than one type of norm.

Table 1. Examples of Social Capital Investments

<table>
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<tr>
<th>Type of Norms</th>
<th>Private Investments</th>
<th>Public Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>Credit ratings, labor unions, cooperatives</td>
<td>Marketing boards</td>
</tr>
<tr>
<td>Bureaucratic</td>
<td>Licenses, certification,</td>
<td>Regional offices, extension</td>
</tr>
<tr>
<td>Associative</td>
<td>Clubs, associations, cooperatives</td>
<td>Community centers, desegregation programs</td>
</tr>
<tr>
<td>Communal</td>
<td>Reunions, family vacations</td>
<td>Family-leave programs, Parent-teacher associations</td>
</tr>
</tbody>
</table>

Reimer et al. (2008, p. 267) distinguish between the availability and the use of social capital. Wealth is the discounted net present value of the expected flow of benefits from the assets. Therefore, to the extent that capital is not used, the value of the (social and other) capital is lower than its potential. The comprehensive wealth perspective also clarifies how (social) capital may be unavailable to certain individuals at times when their property rights have been constrained in some way. This is especially true of public social capital where norms effectively include or exclude individuals based on any of several criteria. Bureaucratic norms, for example, may exclude individuals from public benefits on the basis of age, gender, income, or citizenship.

Another characteristic of social capital revealed by the normative structures framework is the interrelationships among types of norms. Informal associative and communal norms may compensate for restrictive or weak formal market and bureaucratic norms. Because informal norms tend to be more flexible they are more likely to adapt to changing circumstances and to move with mobile individuals.

There are numerous other examples of interaction among norms. Communal norms often increase the access of group members to certain markets but limit the access of non-members. Bureaucratic norms may be designed to reduce patronage or to restrict market access to certain goods and services (those deemed unethical or socially undesirable). Associative norms of religious groups often restrict their members’ market, communal and sometimes bureaucratic relationships.

The normative structures perspective is consistent with the dynamic nature of capital described in the comprehensive wealth framework. Reimer et al. (2008) recount the experiences of a group of rural Japanese women who employed several types of social capital sequentially to increase their access to the resources needed to establish a specialty business. The comprehensive wealth creation perspective describes a dynamic process in which the stock of capital accumulates and depreciates over time, and may not be utilized until the need and opportunity arise. It also accounts for the dynamic transformation of capital from one type into others as needed.

The normative structure perspective helps us understand how globalization has affected rural economies. Rural societies have traditionally relied more on associative and communal-based social norms than on market and bureaucratic-based norms. In the more formal global economy, market and bureaucratic norms
are more commonly employed to mediate relationships. Increased global integration effectively increases rural wealth (by reducing transportation costs in exchanges with the rest of the world) but there is a relative decline in the value of rural social capital contributed by associative and communal norms. Globalization tends to raise the value of the natural and built capital in rural areas and thus the wealth of rural places, but not necessarily the wealth of rural people—an insight readily understood within the wealth creation framework.

The wealth creation framework also helps us interpret the normative structure of the social capital framework. Reimer et al. (2008) observes that “…the relationship between social capital and outcomes resulting from its mobilization is not a linear one – the outcomes of successful use can lead to both the creation and enhancement of subsequent social capital” (p. 269). While it may seem paradoxical that the use of an asset like social capital often leads to its growth rather than its consumption or depreciation, in the wealth creation framework, this type of positive feedback relationship is common. The outcome of the successful use of financial capital, for example, is greater investments, which in turn lead to the creation and enhancement of subsequent stocks of financial capital. In system dynamics terminology, wealth creation involves a number of these virtuous circles.

The final comparison between these two frameworks relates to the outcomes of investments in social capital. Reimer et al. point out that increases in social capital “…may not necessarily benefit the community at large” (2008, p. 269). Similarly, the comprehensive wealth framework allows for the possibility that investments in social capital by some individuals or groups may generate negative externalities. People may experience uncompensated consequences of the use of capital by others. Thus in both frameworks, investments in capital can sometimes reduce aggregate wealth if the value of negative externalities is greater than the net investment in capital.

5.0 Concluding Observations

This comparison of the normative structures framework in social capital and the comprehensive wealth creation framework in economics not only finds that the frameworks are consistent and complementary, but that together they can add significantly to our understanding of the wealth creation and distribution process. Each framework provides the other with greater power of explanation, which after all is the goal of conceptual frameworks in the social sciences. Together they create a bridge between the terminology and concepts of sociology and economics.

The comprehensive wealth framework helps clarify several observations made using the normative structures framework. For example, it helps explain the differences observed in the normative structures literature between availability and use of social capital, and the changing accessibility of social capital to individuals. It also sharpens the distinction between privately and publicly owned social capitals, and explains the sometimes negative consequences of social capital use in terms of negative externalities. The dynamics of wealth and the feedback loops involved in the wealth creation framework help explain, in a conceptual way, the observed dynamics of social capital stocks and flows of services from these stocks.

The normative structures framework, on the other hand, provides greater clarity and understanding to the distinctions between public and private capital and to the concept of social capital mobility in the comprehensive welfare framework. It helps us understand the complementary and competitive relationships among types of
social capital. The normative structures framework provides a compelling explanation of how globalization has disadvantaged some rural regions while the wealth framework translates the explanation into testable hypotheses about changes in place-based versus people-based wealth. The normative structures framework demonstrates that social capital must be studied as a complex network of actors mediated by norms. Here the normative framework is much richer than the comprehensive wealth creation framework.

Reimer et al. (2008) conclude that “…national and regional policies and programs must remain flexible to local conditions, power relations, and forms of social exclusion…” and that “Programs…should focus on matters of access to services rather than simply service creation” (p. 270). These conclusions enhance the argument for place-based wealth creation strategies that build upon existing local assets, and for a richer appreciation for the contribution to wealth facilitated by social networks and capital. It argues for a general strengthening of property rights with attention given to the distribution of these rights.

Overall the comprehensive wealth and normative structures frameworks are remarkably complementary and mutually supportive. Together these frameworks have much to offer both social scientist and policy makers.

References


