



Why Social Capital Matters

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Social Capital in action at Davos.

At R360, wealth is far more than dollars and cents. Instead, we define wealth in terms of six forms of capital: Financial, Intellectual, Spiritual, Human, Emotional, and Social (FISHES). In this white paper, we'll explore the importance of Social Capital. We define Social Capital as the influence, leverage, and goodwill that arises from relationships beyond your family. Through positive contributions to your networks, community, and broader society, it becomes your public identity, your individual and family brand.

The R360 membership has a three-year term because we take our members on a journey from beginner to mastery over the six forms of capital. At each progressive level, the concept of Social Capital expands:

- **At the most *basic* level**, Social Capital refers to your relationships with other individuals beyond your family and immediate workplace.
- **Stepping up to the *intermediate* level**, it's the social networks you belong to and the norms of reciprocity, trustworthiness, and goodwill that arise from them.
- **At a more *advanced* level**, social capital is your individual and familial interactions within your local community, broader society, and the world. It reflects the nature and strength of your personal and shared brand—what you represent. It grows and develops as you leverage it for the greater good, transforming Social Capital into *social impact*.
- **At a level of *mastery***, social capital is a key component to building and maintaining democracy.

Social capital is the grease that oils the wheels of society. It facilitates trust, creates bonds among neighbors, and even helps boost employment because our social networks have inherent value. A society characterized by generalized reciprocity [give and take] is more efficient than a distrustful society for the same reason that money is more efficient than barter. If we don't have to balance every exchange instantly, we can accomplish a lot more. Trustworthiness lubricates social life. Frequent interaction among diverse people tends to produce a norm of generalized reciprocity.

People use the metaphor of capital in various contexts, especially in economics. Financial capital is money available for investment; physical capital is real estate, equipment, and infrastructure; human capital is training that increases job productivity; cultural capital describes in-depth cultural knowledge that can be leveraged for socioeconomic advantage. A social capital economy is also comparable to a financial economy. Like financial capital, people accumulate social capital based on exchange. However, in the

social capital system, the currency is trust and shared connections, and the wealth manifests as social networks.

Theories of Social Capital

Some sociologists believe social capital is simply an individual's interactions with others. Others expand it to the connections among individuals and their social networks and the norms of reciprocity and trustworthiness that arise from them. And then, there is a broader view, examining the social capital generated by people's engagement with civic life in their towns and cities. This engagement includes leadership roles in civic organizations and philanthropy.

The discipline of politics has always concerned itself with the wider subject of civic engagement—on a national or a community level. In fact, the first use of the phrase “social capital” occurred *not* in an academic context but a governmental one.

Over a century ago, [Louis Hanifan](#) (1916), a supervisor of rural schools in West Virginia, in a handbook for teachers, identified social capital as goodwill, fellowship, mutual sympathy, and social intercourse among the individuals and families who make up a social unit. Since then, multiple disciplines have adopted the concept.

The study of social capital is most developed in political science, economics, anthropology, and sociology. Multiple other disciplines have adopted the concept, which identifies how group involvement and participation can positively affect the individual and the community ([Alejandro Portes](#), 1998).

[Pierre Bourdieu](#) (1972) defined social capital as one of four types of capital, along with economic, cultural, and symbolic, that collectively determine social life trajectories. In his definition, social capital is the aggregate of the actual or potential resources linked to possession of a durable network of institutionalized relationships of mutual acquaintance or recognition.

[James Coleman](#) (1988) and [Nan Lin](#) (1999) have drawn on Bourdieu's definition to focus on the effect of social capital for individual outcomes. Coleman focused on how social capital and social structures of relationships could be actualized into concrete resources for use by individuals. Lin further tied social capital to networks of relationships, defining it as resources

embedded in one's social networks, resources that can be accessed or mobilized through ties in the networks.

[Robert Putnam](#) (2000), who served as the dean of Harvard's John F. Kennedy School of Government, popularized this concept through an article in the *Journal of Democracy* titled "Bowling Alone," which he then expanded into a book by the same name. He focused on the role of social capital in generating benefits beyond individuals at the neighborhood and community levels. In his earlier work on the differences between northern and southern Italy (which he traced to levels of civic engagement and civil society), Putnam (1993) defined social capital broadly as the features of social organizations, such as networks, norms, and trust that facilitate action and cooperation for mutual benefit.

Putnam found that substantial social capital has the power to boost health, lower unemployment, and improve life in significant ways. Therefore, any decrease in civic engagement could create serious consequences for society. His interpretation of myriad issues led him to conclude that if America is to thrive, its citizens must connect.

Democracy in America

The nineteenth-century French historian and political thinker Alexis de Tocqueville is best known for his text *Democracy in America*. Published in two volumes in 1835 and 1840, it presents a study of America's egalitarian ideals and flourishing democratic system. Tocqueville is the patron saint of contemporary social capital because of the light he shines on the civic life of the US, which at the time was still a very young country. Sociologist Paul Lichterman said, "Tocqueville still is the most prominent single theoretical muse for social capital."¹

Tocqueville praises America's active civic life, noting the frequency with which Americans attend meetings to discuss and debate a range of issues. This level of civic engagement, Tocqueville believed, encouraged a transparent democratic system, which in turn gave citizens more incentive to participate in the process, further strengthening the democracy.

In the early 1830s, Tocqueville traveled to America at the behest of his government, with a mission to better understand the American prison system.

¹ Paul Lichterman, "Social Capital or Group Style? Rescuing Tocqueville's Insights on Civic Engagement," *Theory and Society* 35, no. 5-6 (2006): 534.

At the time, the United States was a fledgling democracy, barely half a century old, and many nations looked to it as a bold experiment. It was an open question as to whether securing liberty and equality by means of a constitution and a participatory government would, or could, succeed.

Tocqueville traveled widely in the newly formed nation, taking detailed notes filled with observations and insights that only an outsider's perspective could yield. He reflected on almost every aspect of American public life, speaking to citizens, observing daily interactions, and examining the various communities and institutions that made up the new nation. Above all, Tocqueville noted a fierce commitment to personal liberty among the descendants of rugged pioneers who had fought so hard for it. But he also observed the coming together of people for mutual purposes in both the public and private spheres and found that a multiplicity of associations formed a kind of check on unbridled individualism. Keenly aware of the dangers of individualism (a term he coined), Tocqueville was inspired by what he saw in America: Its citizens were profoundly protective of their independence, but through associating widely and deeply, they were able to overcome selfish desires, engage in collaborative problem-solving, and work together to build a vibrant and—by comparison to Europe at that time—surprisingly egalitarian society by pursuing what he called "self-interest, rightly understood."

Though far from perfect in its execution—indeed, this was an America built upon the genocide of Native Americans, the enslavement of African Americans, and the disenfranchisement of women (and Tocqueville was well aware of the evils of slavery)—what Tocqueville saw in our nation's democracy was an attempt to achieve a balance between the twin ideals of freedom and equality; between respect for the individual and concern for the community. He saw independent individuals coming together in defense of mutual liberty, the pursuit of shared prosperity, and the public institutions and cultural norms that protected them. Though there were blind spots still to be addressed, and dangers lurking in some of its flaws and features, democracy in America, Tocqueville felt, was alive and well.

What Would Tocqueville Discover in 2021

Were Alexis de Tocqueville to travel to America today, what might he find? Would he conclude that America had fulfilled its promise of balancing individual liberty with the common good? Would he be satisfied that we'd

realized equality of opportunity and produced prosperity for all? And would shared cultural values, respect for democratic institutions, and a vibrant associational life be the promised antidotes to tyranny?

On the broad question of prosperity, things could hardly be better. Considerable advances in communication, transportation, and living standards have brought to almost all Americans a degree of material well-being unmatched in our history. Increasing educational opportunities have made strides toward leveling the social and economic playing field. A wide variety of goods priced for mass consumption as well as innovative new forms of entertainment—all made available in increasingly convenient ways—have improved the daily lives of nearly everyone. On the whole, Americans enjoy a degree of educational opportunity, abundance, and personal freedom undreamed of by previous generations. A casual observer might paint a rosy picture of this America: overall progress and prosperity driven by education, technological innovation, and sustained economic growth.

And yet, this prosperity has come at a cost. While industries spawned by technological advances have enabled giant corporations to produce unparalleled profits, little of this wealth has trickled down. The poor may be better off in real terms than their predecessors, but the benefits of economic growth have remained concentrated at the top. Extremes of wealth and poverty are everywhere on display.

Class segregation in the form of an entrenched elite and a marooned underclass is often a crippling physical, social, and psychological reality for those striving to get ahead. Young people and new immigrants enter the labor force filled with the hope that the American Dream can be theirs through persistence and hard work. But they often become disillusioned to find they're at a steep competitive disadvantage with a vast chasm between themselves and where the other half lives. American idealism increasingly gives way to cynicism about a rigged system.

But the departure from our past is visible not only in rising inequality and resultant pessimism—it is also apparent in the institutions that increasingly define our nation. Corporate conglomerates are replacing local and craft economies in almost every sector, including agriculture. America's rugged individuals struggle against the loss of identity, autonomy, and mastery as they are subsumed into the anonymous labor of hyper-consolidated corporate machines and forced to pool meager wages to make ends meet. Corporate monopolies have hoarded profits and gained unrivaled economic influence through a wave of mergers. Because of corporations' outsized power, workers' leverage has eroded, and management teams and their boards cite their responsibility to shareholders and market forces to

justify keeping pay low. Corporations search at home and abroad for ever-more-vulnerable populations to employ at ever-lower wages.

Life has dramatically improved at the bottom of American society in meaningful ways, making some commentators optimistic that things will only get better. But these gains have come at the price of long hours in insecure low-wage work. Slavery has been abolished, of course, but the still brutal reality of structural inequality condemns many people of color to a life of intergenerational poverty. And women still struggle to participate equally in a society that manifestly favors male wage earners. The economic well-being of the middle class is eroding, and soaring private debt has become a common buttress to lagging incomes.

The economic power of corporations has, in turn, become political power. While profits mount, so does corporations' creativity in evading financial and ethical responsibility to the public systems that allow them to flourish. Commercial giants successfully fend off feeble efforts to regulate them by buying politicians and parties. Politicians collect exorbitant amounts of money from wealthy donors to win elections, creating a dangerous mutuality between wealth and power. Interest groups also relentlessly pressure elected officials both to prop up corporate agendas and, paradoxically, to get out of the way of the free market. Thus, vast swaths of an increasingly interdependent economy go largely unregulated, and the system as a whole occasionally careens out of control. But the stratospherically wealthy remain insulated.

Inadequate regulation further fuels an irresponsible use of America's vast natural resources. The nation's GDP soars, but wildlife is threatened, fuel sources and raw materials are exploited indiscriminately, and our oceans become more polluted. And while large portions of the country have been set aside as public lands, their fate is vehemently debated as business interests pressure the government to open protected areas for mining, grazing, and fuel extraction.

The rights and cultures of native peoples who inhabit and hold those lands sacred are pushed aside in favor of business interests. Furthermore, unhealthy processed foods are sold without regard to consumers' health or safety. The sugar industry suppresses the dangers of their product as the world experiences an epidemic of obesity and obesity-related illness such as diabetes, heart disease, and dementia. The corporate mentality of the age seems to be focused solely on gaining economic advantage no matter the consequences.

Books and newspapers of the day are filled with reports of scandal in our leaders' personal and professional lives, as journalists work to reveal the

rotten core of an America that's run amok. Politicians are regularly exposed as corrupt—trading in power and patronage and taking advantage of their positions in increasingly creative ways. Crime and moral decay are the ubiquitous subjects of popular entertainment, contrasting indulgence at the top and indigence at the bottom.

As an after-the-fact attempt at carrying out their civic duty, many of America's wealthiest donate large sums of money to various philanthropic causes. This largesse erects buildings, founds institutions, and shores up cultural infrastructure, but it's rarely given anonymously. Instead, donors bestow these "gifts" in exchange for having their name immortalized upon a facade. Industry leaders are often lionized for rising from humble backgrounds by employing the "true grit" of entrepreneurship and becoming social and cultural icons despite morally questionable actions. The message to ordinary Americans is that anyone can go from rags to riches *if* they are willing to do whatever it takes.

Indeed, many corporate titans who dominate the American imagination live by an ideology of individualism that barely masks selfishness. A philosophy of supreme self-reliance is common, and the pursuit of unfettered self-interest is considered a laudable ethic. The idea that "greed is good" and "only the strong prevail" has been translated into a subtle but powerful cultural narrative about the unimpeachable fairness of the market and the undeserving nature of the poor. While lavish displays of luxury, flamboyant parties, global travel, and opulent mansions are the social currency of the elite, redistributive programs are dismissed as wasteful.

A drift toward self-centeredness in private life is matched in the public square. In politics, an overfocus on promoting one's interests at the expense of others has created an environment of relentless zero-sum competition and a repeated failure of compromise. Public debates are characterized not by deliberation on differing ideas but by demonizing the opposition. Party platforms move toward the extremes. And those in power seek to consolidate their influence by disenfranchising voters unsupportive of their views. The result is a nation increasingly fragmented along economic, ideological, racial, and ethnic lines and dominated by leaders who prove shrewdest at the game of divide and conquer. The inevitable result is political gridlock and a hobbled public sector. Decaying infrastructure, inadequate basic services, a fraying military, homeless veterans, and outmoded public programs are a national embarrassment. Citizens rightly despair of elected officials ever being able to accomplish anything at all.

This climate has also created a pervasive disillusionment with the nation's political parties. Neither seems capable of addressing America's

problems, and many voters are turning to third parties for better options. Libertarian leanings are common while, at the other pole, socialism gains adherents. And a rising tide of populism has captured the enthusiasm of many, especially those in rural areas. America's democratic institutions strain under the burden of polarization.

In addition to this economic and political malaise, social and cultural discontent are also rising. In an America transformed by the rapid forward march of technology, new forms of mobile and virtual communication, cryptocurrencies, and transportation have disconnected and reconnected people in countless ways, rearranging identities, beliefs, and value systems. Some optimistically tout the breaking of barriers and narrowing of distances between people; others experience loneliness, isolation, and atomization as traditional social structures give way.

The increasingly global information age is inundating people with news from every corner of the earth. This explosion of information threatens to overwhelm the individual trying to make sense of it all. New ideas in science, philosophy, and religion upend traditional touchstones at an astonishing pace. And a culture dominated by commerce and consumption has made advertising a ubiquitous—and often lamentable—part of daily life in America.

Even the reliability of the free press, that critical component of any democratic system, has become questionable, as a drive for corporate profit overpowers a responsibility to the truth and objective reporting of the news, and the wide acceptance of censoring opposing viewpoints that don't fit the current narrative. If America's journalists once spoke truth to power, today America's journalists *are* the powerful, a tightly knit caste both highly educated and affluent.

A fevered pace of life is often blamed for widespread stress and anxiety. Demand for stimulants of all kinds is on the rise as Americans hurry to keep up and strive to get ahead. The growing demand for productivity at all costs is claiming the physical health and emotional well-being of many individuals and families. The combined effect of these powerful technological, economic, political, and social forces is a sort of dizzying vertigo—a pervasive sense that the average person has less and less control over the forces shaping their individual life. Anxiety and depression are mounting among the young, who face unprecedented challenges and appear likely to live shorter, less rewarding lives than their parents did. This nation seems no longer recognizable or intelligible to those brought up in an earlier age, turning many older Americans toward nostalgia for a bygone era.

Some Americans have reacted to these many forms of dislocation by turning on their perceived adversaries in an increasingly cutthroat social and

economic contest. Racism and gender discrimination persist and have even intensified. Indeed, the progress toward racial equality achieved in an earlier era is threatened. White supremacist violence is on the rise—often encouraged, rather than prevented, by white authorities. Tensions continually flare, and conflict often turns bloody, while trust and respect for law enforcement deteriorate with each clash. People watch in disbelief while a new wave of so-called flash-mob robberies, thieves by the dozens invading retail stores to simply take what they want. And the debate rages on whether bail reform measures are necessary concessions to equal justice or yet another erosion of law and order that turns criminals loose on America's streets.

Immigrants who bring diverse cultural and religious practices to America often encounter hate and violence. Since the beginning of the COVID pandemic, there has been an alarming level of racially motivated violence and other hate crimes against Asian Americans. Nativism is common and considered by many to be culturally acceptable and even patriotic. Support for restricting and even halting immigration from certain countries and groups has increased. The number of immigrants entering our southern border illegally soars. Meanwhile, ideologically motivated extremists ignite a backlash against all immigrants, including crackdowns by law enforcement, nationwide raids sponsored by the attorney general, and threats to civil liberties. In more significant numbers than ever before, Americans seem to have stopped believing that we are all in this together.

Almost as often as we turn on one another, Americans respond to uncertainty and insecurity by turning to self-destructive behaviors and beliefs. Some turn to substance abuse or the fleeting relief of materialism; others numb themselves with cynicism, retreating to the imaginary safety of spectatorship or the adoption of an apocalyptic worldview: the American Experiment has failed, and the best we can hope for is to start from scratch once it all comes apart. Whether the response is lashing out, turning inward, tuning out, or giving up, Americans are becoming paralyzed by disagreement, disillusionment, and despair. Indeed, many Americans seem to agree these days on only one thing: These are the worst of times.

Worried observers—as Tocqueville certainly would be— use words like "oligarchy," "plutocracy," and even "tyranny" to warn of the reemergence of overlapping economic and political power structures that America's founding was supposed to have banished. Thomas Jefferson's statue was just removed from New York's City Hall. People are deemed inherently evil based on their skin color, and the country itself has been deemed evil. "Equal rights for all and special privileges for none" has given way to a ruling class ethos of

unequal rights and special privileges. We do not share a common belief in our history, the righteousness of our cause, or the cultural basis for a free and flourishing society. These fundamental fissures make economic policy and the size of the government of secondary concern. It is futile to focus on them when facing an existential crisis in which the ability to even freely debate anything of consequence is under assault. Still, others lament that the country is on the wrong track morally and culturally. Does democracy in America, they wonder, stand on the verge of ruin?

As Tocqueville rightly noted, for the American Experiment to succeed, personal liberty must be fiercely protected and carefully balanced with a commitment to the common good. Freedom to pursue one's best interest is of paramount importance, but when exercising that freedom comes at the expense of others, it becomes a destructive force with the power to erode the very society that guarantees it.

Rebuilding Our Communities

The time-honored reaction to social disintegration is handwringing and despair. But the more one reads of history and anthropology, the more one stands in awe of the human gift for generating and regenerating value systems, moral orders, institutions, and societies. We have an uncelebrated capacity to counter disintegration with new integrations.

We must strive to preserve the family, which serves as the common root of communal life and the training ground for developing responsibility for others. The future vitality of one's community depends on inculcating the responsibility of its citizens. If they don't care, all the experts and money in the world won't help.

We must continue the work of community building in school, congregation, neighborhood, workplace. It's not just that we shall be building communities. We shall be developing citizens who know out of their own intimate experience the disciplines and satisfactions of community. They will understand teamwork, the observance of shared values, collaborative problem-solving, and the building of trust. Together, we shall be building social capital.

One aspect is crucial: the requirement that we bring into being a wholeness that incorporates diversity. This task requires measures that enable diverse groups to know one another in a practical setting. It necessitates conflict resolution, coalition building, and collaborative problem-

solving skills. And it demands institutions that transcend group differences. The achievement of wholeness that incorporates diversity is the transcendent task for our generation, at home and worldwide.

With respect for our tradition and a keen sense of present realities, we must build new communities for the tumultuous world ahead. But no matter what the pandemic and work-from-home technologies bring, we must ultimately return to our schools, places of worship, offices, and neighborhoods because these face-to-face settings are where people can learn the lessons of responsibility, trust, caring, and mutual obligation.

Purpose is not something you stumble across; it is something you build into your life. You make it out of your past, out of your affections and loyalties, and the experience of humankind as it is passed on to you. You derive it from your talent and understanding, the things you believe in, the people you love, and the values for which you are willing to sacrifice something. The ingredients are there. You are the only one who can put them together into that unique pattern that will be your life. Let it be a life that has dignity and meaning for you.

For renewal, tough-minded optimism is best. The future is not shaped by people who don't believe in one. Men and women of vision bet their futures and even their lives on ventures with uncertain outcomes. We take our inspiration from Nelson Mandela, who said:

“During my lifetime, I have dedicated myself to this struggle of the African people. I have fought against white domination, and I have fought against black domination. I have cherished the ideal of a democratic and free society in which all persons live together in harmony and with equal opportunities. It is an ideal which I hope to live for and to achieve. But if needs be, it is an ideal for which I am prepared to die.”

Unless we attend to the requirements of renewal, aging institutions, and organizations, we will eventually bring our democracy to ruin. Unless we cope with the ways in which modern society oppresses the individual, we shall lose the creative spark that renews both communities and individuals. Unless we foster versatile, innovative, and self-renewing families, all the ingenious social arrangements in the world will not help us.

It is not a liberal or conservative issue. It is not Democrats vs. Republicans. It is a question of whether we will settle into a permanent state

of alienated self-absorption or show the vigor and purpose that becomes us. We do not want it said that we let our American democracy disintegrate after a couple of great centuries. The individual's role in social renewal requires each of us to do our part. To R360 members and their families, we say, "If not us, then who? If not now, then when?"

Conclusion

We are at a point in our history where democracy is in crisis. Learning to build and use social capital is the pressing issue of our time. Leaders who understand how to build and use social capital, in person or virtually, will thrive. The pandemic has forced a dramatic acceleration of our need to fast-track our understanding of social capital and how to build and use it while physically distanced from one another. Our democracy depends on it.

Because of their success, wealthy individuals have a high profile within the community and are expected to use their wealth and influence to make a difference. They are looked to as leaders, and what they do impacts how they are perceived. They are often held as role models or looked to as leaders in positive change. Their reputation is defined by what they do with their wealth and how their families demonstrate community leadership, investment, public service, and philanthropy.

The social capital that an individual develops creates value to them personally and to others. Their public activity sends a message to their community about what they deem important. When they own a business or make investments, how they exercise their leadership is judged by the community and enhances or diminishes their reputation.

Many feel that this is not something that needs to be planned or made explicit. They develop their role in the community using the same intuition that guided their wealth creation. But when it comes to cultivating social capital, gut instinct may not be sufficient. Deciding how to use one's resources to make an impact can be a formidable challenge. The community has complicated, urgent needs, and the choices about how best to intervene (e.g., foundation, donor-advised fund, or investment portfolio?) are equally complex. A more thoughtful approach can save time, money, and wasted effort. Also, wealth creators often include their spouse and children in their community-building activities to convey their family's values, associate their name with good works, and establish a legacy of leadership.

Social capital arises from activities in five major areas:

- Investing your time to forge enduring relationships with individuals and social networks.
- Leading and supporting community activities.
- Giving financial and material support (your expertise, networks, etc.) to the community and to causes that benefit everyone.
- Instituting personal investment policies and practices that create societal as well as financial returns.
- Establishing ESG (environment, social, and governance) policies in family-owned companies and assets.

Reflection Questions:

1. *Which of these areas are important and part of your identity and values?*
2. *Which of these areas would you or your family like to develop further?*
3. *How does your family work together to express your social values and develop social capital?*

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Charlie Garcia thanks R360 Family Governance and Leadership Advisor Dennis T. Jaffe, Ph.D., for his contributions to this paper. As a leading authority in family enterprise consulting and the bestselling author of dozens of books, Dr. Jaffe helps those who wish to see their wealth positively impact their children, employees, and communities.

About R360

Our world needs men and women who combine extraordinary success, talent, and character with rare and deeply held values. R360 is a by-invitation-only league of these individuals: Leaders who have attained a net worth of over \$100 million and desire to use their abilities, wealth, and knowledge to leave an enduring legacy. Our purpose is to architect an oasis for these strategic wealth creators and their families to flourish. At R360, members helm the organization, directing our programming and unique experiences to facilitate collective growth. We focus not just on our members' financial capital, but on all their family wealth, including intellectual, social, human, emotional, and spiritual, which are often overlooked. Members enjoy new challenges and forge connections with like-minded people who share their values. They access unique opportunities, experiences, and insights that will protect and grow their wealth while bringing joy and deeper meaning to their lives and the lives of those they love.

For more information, please visit www.R360global.com.