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Does Social Cohesion Really Promote Reforms?

The concept of social cohesion has come into fashion in recent years. For example, the European Union has made the pursuit of social cohesion part of the treaties, the French and British governments have assigned ministerial responsibility to its promotion, and research has been produced by academic scholars in sociology, economics and political science.

One reason for this interest is the wide-spread view of social cohesion as a means to overcome barriers to, and promote the social acceptance of, economic reforms. Such reforms, aimed at enhancing growth and competitiveness, are sorely needed in many welfare states in the wake of the global financial crisis and the ongoing European sovereign-debt crisis.

But while the interest in social cohesion is broad, there is little agreement on what the concept actually means; it has even been called a "largely ill-defined term". This has caused a similar ambiguity concerning how it should be measured empirically, most notably whether it should be considered a one-dimensional or a multi-dimensional concept.

A consequence of these ambiguities is that it is difficult to evaluate previous research linking social cohesion to economic reform. This motivates

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the attempt of this paper to investigate whether social cohesion really promotes reforms. We do this in two steps.

In the first step, we draw on the previous research to investigate whether social cohesion is a coherent concept by using a principal-component factor analysis covering 16 commonly used indicators of social cohesion for 40 different countries. The results suggest that social cohesion is a multi-dimensional concept, consisting of no less than five orthogonal components or distinct dimensions. Based on their factor loadings, we label these dimensions social divisions, modern values, traditional nationalism, institutional commitment, and fairness as desert. Using a complementary cluster analysis, we find at least five "models of social cohesion" with varying emphasis on the five dimensions found in the factor analysis.

In the second step, we study to what extent the five dimensions of social cohesion affect a country's capability of reforms. We do so by regressing economic reforms, quantified as a five-year change in the Economic Freedom of the World Index, on each of the five dimensions, separately, in a panel spanning 1980-2009. Results indicate that most dimensions of social cohesion do not influence reform capacity.

However, fairness as desert, in contrast to equality, is shown to have a positive effect on economic reforms, while institutional commitment has a negative effect on reforms in times of economic crises. Moreover, a certain degree of social divisions actually seems helpful in handling a crisis. The results go against the previous literature, challenging the prevailing view of social cohesion as being unambiguously beneficial to economic reform.