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SOCIAL CAPITALISM

How a community-powered economy drives growth

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Introduction

Learning from our history

Everyone agrees on the need to get the British economy growing faster so that we can conquer inflation, raise living standards, pay for world-class public services and level up the country.

We must rediscover fundamental Conservative insights into what makes a thriving and successful economy.

Margaret Thatcher's great contribution to our country was to restore Britain's 'enterprise culture' by freeing people to set up businesses and run them without excessive state interference. Thanks to the Conservatives, Britain is one of the most open economies in the world and one of the easiest places to do business.

But we cannot just focus on removing barriers. We also need to look at the roots of growth - the deep sources of prosperity that create the conditions for a successful enterprise.

This is where traditional Conservative values come to the fore.

Liberals believe that people are only motivated by greed and self-interest. Socialists believe that people must be compelled to do the right thing through bureaucracy and state control.

Conservatives believe that people are driven by more than just their own bank balance or commands from government. We are driven by affections and obligations that transcend the diktats of the market and the state. In a word, we are driven by love - love of family, of community, and of nation. In dryer language, we depend on social capital, and on the sense of identity we derive from the communities - local, national and cultural - that we belong to.

All the evidence suggests that countries which have higher levels of social

capital and a strong sense of national identity are more prosperous than those without. Social capital and identity are as important as any economic lever. We cannot have an aspiration nation without having a strong society.

We know the state cannot create social capital on its own. But this does not mean we are powerless.

Just as government can invest in our roads, railways and broadband to boost our economy, we can invest in the people, places and institutions that bring us together. We can support the institutions that encourage responsibility and reinforce resilience: the associations, charities, faith groups, cultural bodies and sports teams and clubs of every sort that enrich our communities; and the physical places where people gather, from town halls to high streets, parks and playing fields.

Indeed, investing in our physical infrastructure without investing in this critical social infrastructure is like buying a computer but failing to buy any software.

It is not only unconservative but also risks wasting the billions that we are spending on other policies. Higher levels of social infrastructure provides people with a safety net to take risks in setting up new businesses or taking responsibility to fix local problems.

The argument of this essay is that we need to rebalance our approach to growing our economy.

We need to keep taxes low. We need to balance the books. We need to invest in skills and technology, in housing and transport. But we also need to invest in our social infrastructure.

This is not left-wing or woolly thinking. This is applying distinctive Conservative principles to our economy.

We also know that this is what voters across the country want to see. Voters are concerned about our fraying social fabric. They recognise that without a plan to bring our communities and our country together we are not going to create a dynamic economy.

We have the opportunity to seize a double dividend. Economically, investing in social infrastructure can deliver faster growth and higher living standards. Socially, we can give people pride in their communities and create a stronger nation.

This is 'social capitalism', a recovery of the distinctly Conservative understanding that the roots of free markets, and of growth itself, are in the non-economic sphere where trust and social capital are generated. This essay sets out the evidence for this approach, a fundamentally necessary element of our strategy as we seek to turbocharge our economy, beat inflation and spread opportunity across the UK.

Chapter 1. How do economies grow?

Creating a culture of growth

In 1905 the sociologist Max Weber published *The Protestant Ethic and the Spirit of Capitalism*. In this seminal book, he laid out how the growth of modern economies was only possible when people were prepared to put their individual short-term interest to one side and were prepared to invest and build businesses for the future.¹ In short, values and society matter to economics.

Since Weber's pioneering analysis, more and more of the economic literature has confirmed the importance of cultural and social institutions in determining long term economic performance.

Internationally respected economic historian Joel Mokyr's *A Culture of Growth* identified two distinct ways that culture can affect economic performance.² First, a strong shared culture can create high trust and cooperation which reduces transaction costs. Essentially, it is easier to do business when people can rely on each other and have confidence that investing today will have results in the future. Research has found that countries with higher levels of trust have higher levels of income, compared to those with a lower level of trust.³

The other benefit is the development of "civic-mindedness".⁴ "A spirit of public consciousness and willingness to abstain from free-riding behaviour in collective actions", Mokyr says, "supports a higher supply of public goods and investment in infrastructure than otherwise is possible."⁵ In layman's terms, if people feel a sense of belonging to their country and their community, they are willing to contribute or even sacrifice for the collective good. Countries with a strong shared culture also expend less on bureaucracy and compliance because they can trust that people will do the right thing.

1 M. Weber, *The Protestant Ethic and the Spirit of Capitalism*, Routledge, 2001

2 J. Mokyr, *A Culture of Growth: The Origins of the Modern Economy*, Princeton University Press, 2018 p.13

3 P. Zak & S. Knack, "Trust and Growth", *Economic Journal* Vol.111, No 470, pp.295-321

4 J. Mokyr, *A Culture of Growth: The Origins of the Modern Economy*, Princeton University Press, 2018 p.13

5 Ibid.

Mokyr is not an isolated economist. Nobel Laureate in Economics Edmund Phelps has discussed the importance of “economic culture” to the performance of the economy and growth.⁶ The dynamism and innovation within an economy can be linked to the social and cultural values within that economy. Yet, as Phelps notes, traditional economics or economic policy making rarely consider the motivations and values of people in their modelling.

A strong society and civic culture can have a decisive impact on the performance of the economy. Robert Putnam’s famous 1993 study comparing the differing performance of the Italian North and South, *Making Democracy Work*, found that social institutions (or a lack of them) founded in the 12th Century were still having an impact on the economies of Italian communities over eight centuries later.⁷ GDP per capita in Milan, where a strong civic culture persists, is 96% higher than in Naples, where trust and social capital are low. Across Northern Italy, GDP per capita is nearly 54% higher than in the South.⁸

Investing and building the right social infrastructure may not be as eye-catching as other forms of economic policy, but there are few investments that have the same level of impact and over such a long period of time.

British history shows us the power of social and civic infrastructure to power our economy. The political and social transformation in the 17th and 18th centuries paved the way for the Industrial Revolution. Parliamentary democracy, the rule of law, greater religious tolerance, civic and commercial freedom were the headline developments that drove this transformation. But of equal significance, as another Nobel Laureate in Economics, Douglass C. North, has highlighted, was Britain’s ability to create a strong society where people from differing backgrounds could work and invest together, thus enabling higher levels of innovation and faster growth.⁹

Coffee houses, choral societies, mechanics institutes, dining clubs, lending libraries, hundreds of periodicals and correspondence societies brought people together to create an environment for social and economic reform.

6 E. Phelps, *Mass Flourishing*, Princeton University Press, 2013, p.194

7 R. Putnam et al, *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton University Press, 1993

8 F. Fukuyama, *Political Order and Political Decay*, Profile Books, 2014 p.110

9 D. C. North, *Understanding the Process of Economic Change*, Princeton University Press, 2005 p.18

These institutions also gave people a sense of agency and control over their lives, that it was worth putting the time and effort into creating new institutions. It gave the British people a belief in themselves. By cultivating the “art of joining”, as De Tocqueville put it, Britain learnt the “fundamental science” of building a successful democracy.¹⁰ This enabled Britain to develop an inclusive economy, where wealth and prosperity was more evenly shared, compared to our rivals.¹¹

Social capital and economic growth

In modern jargon, our civic and social institutions built up our pool of “social capital”. As Putman puts it, social capital “refers to features of social organisation such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit.”¹²

High levels of social capital lead to higher levels of productivity and better economic performance. Research has consistently found that higher levels of social capital is strongly linked to higher levels of GDP growth.¹³

Drilling down further we can see this is due to higher levels of investment and long term value creation. According to global think tank Solability’s Global Social Capital Index¹⁴, seven of the top ten countries for social capital have higher levels of productivity than the UK.¹⁵ All of the top ten have a higher level of capital investment as a percentage of GDP.¹⁶ The Office for National Statistics has identified low investment as one of the drivers of low productivity in the UK over the past decade.¹⁷ This in turn has driven lower wages and lower living standards than otherwise would be the case.

10 A. de Tocqueville, *Democracy in America*, Random House, 1994

11 D. Acemoglu & J. A. Robinson, *Why Nations Fail*, Profile Books, 2013

12 R. Putnam, *Bowling Alone: America’s Declining Social Capital*, *Journal of Democracy*, 1995

13 O.C. Dincer & E.M. Uslaner, “Trust and Growth”, *Public Choice*, 142:1, July 2019

14 Solability Sustainable Intelligence, *The Global Sustainable Competitiveness Index 2021*, October 2021

15 OECD, *Labour Productivity – GDP Per Hour Worked*, accessed 21 July 2022

16 *TheGlobalEconomy.com*, *Investment as percentage of GDP by country: the latest data*, accessed 21 July 2022

17 Office for National Statistics, *International comparisons of UK productivity (ICP), final estimates: 2020*

Table 1: Social Capital & Capital Investment

Country	Social Capital Score	Capital Investment (% of GDP)
Iceland	64.1	21.58%
Norway	63.5	30.31%
Sweden	62.4	24.79%
Finland	62.3	24.46%
Belgium	61.2	24.16%
Austria	60.7	25.9%
Slovenia	60.5	20%
Estonia	60.4	30.24%
Denmark	60.4	22.93%
Luxembourg	59.8	17.9%
United Kingdom	51.2	16.7%

Source: *Global Sustainable Competitiveness Index 2021 & Global Economy.com*

Interestingly, high levels of social capital also appear to spread growth more evenly throughout the economy. Sweden, Austria, Norway and Denmark have far lower levels of regional economic disparity compared to the UK.¹⁸ Increasing levels of social capital would not only generate higher levels of growth but would also spread economic growth more evenly throughout the economy. Strong community bonds promote positive ideas about a town's future, which in turn, contribute to an overarching sense of shared identity and greater cohesion.¹⁹

Alongside encouraging higher levels of capital investment, social capital also directly affects productivity. Research exploring the contributions of human and social capital to productivity found that social capital "is the most

¹⁸ OECD Library, Long-Term regional economic disparities, accessed 29 July 2022

¹⁹ Bennett Institute for Public Policy, Townscapes: The Value of Social Infrastructure, May 2021

important factor to determine productivity.”²⁰ This is through knowledge exchange, people finding the right positions for their skill sets and drawing on a wider community of people for collective problem solving.

Greater levels of social capital can also generate higher levels of integration and social cohesion. Baroness Casey’s review into opportunity and integration in isolated communities found that we need both “bonding” capital (i.e. bringing people together who already share a community of interest or identity) and “bridging” capital (i.e. bringing together people from different groups) if we want to strengthen our communities. A lack of integration is costing us approximately £6 billion each year, specifically through long-term unemployment as well as a lack of recruitment and career progression.²¹

Beyond the direct economic and financial benefits, higher levels of social capital leads to better outcomes, on average, in health and wellbeing according to research compiled by the Local Trust.²²

National identity and economic growth

High levels of social capital are essential for strong economic performance, but they also need to feed into a wider sense of national identity. Five countries in the top ten of the Social Capital Index had comparable International Social Survey Programme (ISSP) data on national identity. In all five, individuals that took part in the survey reported higher levels of national identity than Britain.²³

Political scientist Francis Fukuyama has identified national identity as “pivotal to the fortunes of modern states.”²⁴ Historian Donald Sassoon noted in his history of capitalism during the 19th and early 20th Century that “nation building” was a significant feature in making capitalism work.²⁵

20 A. Greve, M. Bassi & A. Dag Sti, Exploring the Contributions of Human and Social Capital to Productivity, *International Review of Sociology*, January 2004

21 L. Casey, The Casey review: A review into opportunity and integration, 5 December 2016

22 Local Trust, The Double Dividend, July 2021

23 Defined as a higher proportion of the population answering that they felt “very close” or “close” to their country.

24 F. Fukuyama, Why National Identity Matters, *Journal of Democracy*, vol. 29, no. 4, Oct. 2018, pp. 5-15.

25 D. Sassoon, *The Anxious Triumph: A Global History of Capitalism 1860-1914*, Allen Lane, 2019 p. 247-266

Denmark, for example, has had one of the strongest performances of any developed economy in Europe in recent years. GDP per capita has grown by 14% in Denmark compared to 9% in the UK.²⁶ It also has far higher levels of capital investment and lower levels of regional inequality. Academic research has found a strong sense of national identity as central to the success of the Danish economy despite the instability created through globalisation. Governments, companies and people have developed a consensual decision making process to advance the national interest.²⁷

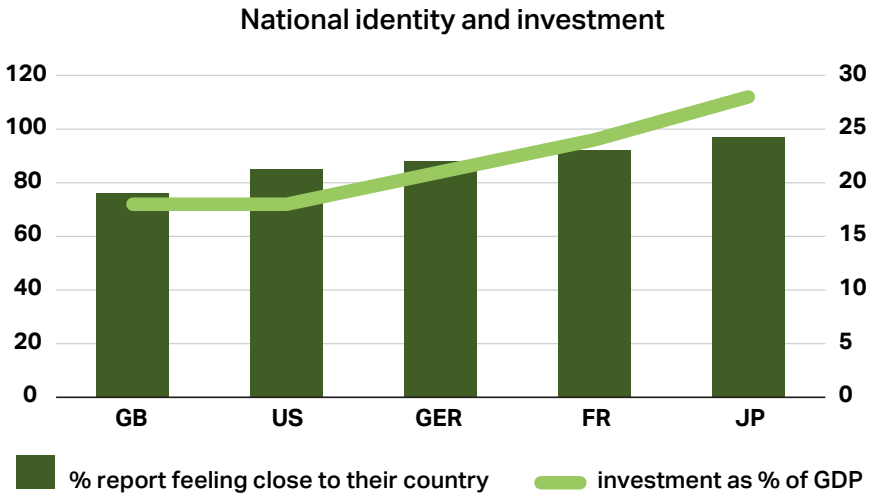
People who feel a strong sense of community and national identity are more likely to invest and grow their business, sacrificing short term gains for the long term benefit of themselves and their country. They feel more confident that if they take risks, they can rely on the support of the people around them and they will be able to enjoy the fruits of their labour. In an interconnected global economy, where people can move from place to place, a strong sense of connection to place motivates people to set up world beating businesses in their home country rather than somewhere else. Our values and our culture shape the structure of the economy.

This is not just a lesson from the history books. Even today, countries which report higher levels of national identity see significantly higher levels of investment which in turn leads to higher levels of productivity. Both of these drive higher living standards.

Figure 1 puts Britain up against comparator economies in the United States, Germany, France and Japan. As can be clearly seen in this chart, France and Japan, which report higher levels of national identity, see far higher levels of investment than the United States and Britain. Germany sits in the middle but still has higher levels of investment than the US and UK.

²⁶ The World Bank

²⁷ Campbell et al, *National Identity and Varieties of Capitalism: The Danish Experience*, 2006

Figure 1: National identity and investment as percentage of GDP

Source: ISSP National Identity data – 2013 survey & Global Economy.com

This difference in investment also translates into higher levels of labour productivity which in turn leads to improved living standards. Between 2013 (when the ISSP survey was carried out) and 2019 (pre-COVID), Japanese labour productivity rose 19% faster compared to the UK. German and US productivity rose 15% faster. French labour productivity also rose faster than the UK during this period. Based on the link between labour productivity and wages²⁸, increasing UK labour productivity in line with the average of these advanced economies could increase the UK average wage by over £5,000.²⁹

Higher levels of national identity is also linked to a fairer spread of economic opportunity throughout the country. Japan, France, Germany and the USA all have lower levels of regional economic disparity than the UK.³⁰

²⁸ F. Brocek, Is the link between labour productivity and wage growth still alive in the UK?, University of Strathclyde, 26 August 2019

²⁹ Calculation based on OCED data on UK average earnings increasing by 10% - the median labour productivity of US, GER, FR & JP - from £51723 to £56896

³⁰ OECD Library, Long-Term regional economic disparities, accessed 29 July 2022

Bringing Conservative ideas back into economic policy

We must recognise that social capital and pride in our nation alone are not enough. The correlations we have noted are not conclusive. Turkey, for example, has a high level of national identity and social capital, but also has a weak economy.

We need excellent public services and a supportive environment for business too, including, most fundamentally, the rule of law and the enforcement of rules against corruption.

However, to ignore the role of social capital and national identity as we look to grow our economy would be like baking a cake while missing half the ingredients. We need to make running a business or investing in Britain as easy as possible, but we also need to look at the fundamental drivers of behaviour and the values that influence our decision making.

The mistake of New Labour was to ignore the importance of local responsibility and institutions, instead creating a culture of dependence on Whitehall through bureaucratic targets and funding pots. They did not recognise that this approach undermined, rather than strengthened, our society.

In Britain we have taken for granted the need for a strong society to underpin our economic performance.

As Conservatives we are rightly sceptical of those doom-mongers who claim that Britain is falling apart. Events such as the Platinum Jubilee and the response of communities during COVID have shown that there is still a great sense of togetherness and national spirit. The sad passing of Her Majesty Queen Elizabeth II has also brought the country together in grief in a way that few could have predicted. But we must not ignore the warning lights flashing on the dashboard.

Research by More in Common found that 55% of people believe the UK is divided.³¹ The 2020 Edelman Trust Barometer reveals that 3 in 5 Britons say

³¹ T. Dixon, Britons are less divided than you might think, but we need to start listening to each other, 30 March 2021

they are losing faith in democracy as an effective form of government, and over half believe that capitalism does more harm than good.³²

According to Onward, “civic engagement and voluntary association have also declined. In 2017, just under half of people were members of a group of some kind, a decline of around 10 percentage points since 1991”.³³ Onward’s *State of our Social Fabric* report goes on to highlight that “[the] decline in membership has particularly hit local groups. For example, the number of people who are a member of a working men’s or social club has fallen by around a quarter, whilst the number who are members of a tenants’ or residents’ association has fallen by 38% to 6% of the population. This has knock-on effects, reducing the strength of trust, reciprocity and neighbourliness, key norms which allow community action to thrive.” Our small charities have also come under increasing pressure as funding has been harder to access and more barriers have been put in place to access grants. The situation is worst in left behind areas. Nearly all (98%) have lower rates of volunteering and they perform less well than the England average on measures of social connectedness, such as whether people feel they belong to their neighbourhood and that they can borrow things or exchange favours with neighbours.³⁴

Our history of national unity has led governments to take it for granted.

We cannot keep free-riding and spending down the inheritance of previous generations. We need to make our own contribution and invest in the institutions, people and ideas which bring our communities and our nation closer together.

Underinvestment in our social capital has made our economy weaker than it otherwise would be. If we want to turbocharge growth and get Britain back on track, we need to invest in the things that strengthen our communities and a greater sense of national identity.

The next chapter will consider what we know about creating social capital.

³² Edelman, 2020 Trust Barometer: UK Results, accessed 22 July 2022

³³ Onward, *The State of Our Social Fabric*, September 2020

³⁴ Oxford Consultancy for Social Inclusion (OCSI), *Left-behind Areas: Connectivity data*, 2021

Chapter 2. How can we grow our social capital?

If we want a faster growing economy, we need to build up our stock of social capital as much as our physical, financial and human capital. But how do we grow it?

Fortunately, the evidence is clear that investing in social infrastructure is one way to generate social capital and increase civic engagement.³⁵

It does this through creating bonds and bridging the gaps between people.

Stronger social bonds are the 'pull factor' which make us want to go above and beyond for those around us. They encourage us to take risks, to invest our time and effort in our communities and our country. They ensure that we make decisions that help everyone, not just ourselves.

Stronger social bridges are the 'push factor' that bring us into contact with others that we otherwise would not meet. They are the places that spark new ideas, new businesses and new relationships that otherwise would not be possible. They create the innovations and ideas that fuel our modern economy.

We need both these kinds of social capital, bonding and bridging, in order to build a stronger society and stronger economy.

What is social infrastructure?

The Bennett Institute for Public Policy at the University of Cambridge defines social infrastructure as the "physical and community facilities which bring people together to build meaningful relationships."³⁶

³⁵ Bennett Institute for Public Policy, Townscapes: The Value of Social Infrastructure, May 2021

³⁶ Ibid.

Our unique patchwork of social infrastructure is what makes Britain, British. It is the local sports club where people play sport and attend family fun days for local residents. It is the pub where people come for a pint and join in quizzes to raise money for local charities. It is the community hall where birthday celebrations are held and which holds a jobs fair for young people. It is the high street where businesses trade and friends meet for a coffee. It is the community celebrations that see us swapping food, stories and making new acquaintances. It is the small charities that bring volunteers together to help local people or make their area a better place to live.

Social infrastructure is the events, groups, places and organisations which bring us together creating trust and attachment to our communities and our country.

A significant body of research highlights the social and economic effects of these facilities and spaces which bring parts of the community together.³⁷ If we want to bring people together and create a stronger society, we need to pay particular attention to our social infrastructure.

There are 64,000 small charities in England and Wales contributing £7.2 billion to the economy.³⁸ There are nearly 40,000 pubs in England and Wales.³⁹ We have 3,667 public libraries.⁴⁰ There are an estimated 10,000 village halls in England and Wales.⁴¹ Almost 2.3 million people are employed in social infrastructure-related industries in Great Britain. These industries provide almost half of all jobs in some towns.⁴²

Research by Frontier Economics found that investment in the social infrastructure of the most 'left behind' neighbourhoods can generate significant economic payback to the Treasury. For every £1m invested, there are fiscal returns of £1.2m (at least 50 per cent of which are likely to be cashable) and there are wider economic returns worth a further £2m,

37 J. Muringani et al, Bridging, not bonding, for regional growth, VoxEU, 20 April 2021

38 Sheffield Hallam University & Lloyds Bank Foundation for England and Wales, The Value of Small, June 2018

39 The Morning Advertiser, Number of pubs in England & Wales reaches record low, 4 July 2022

40 Reading Agency, Library Facts, accessed 29 July 2022

41 English Rural, Hall or Nothing? Why We Need Our Village Halls, 28 January 2022

42 Ibid.

including a £0.7m boost in employment, training and skills opportunities for local residents.⁴³ Looking more specifically at the arts and culture, the Centre for Economics and Business Research has found that for every £1 in turnover which the arts and culture industry generates directly, a further £1.24 in output is generated in the wider economy. Similarly, for every 1 job created by the arts and culture sector, 1.65 jobs are supported in the wider economy.⁴⁴

Moreover, we also saw during the pandemic, small charities have played a vital role as first responders to crisis and increasing community resilience. Without them, the rapid development of a network of mutual aid groups and other support would simply not have been possible. Social infrastructure is not merely a foundational underpinning for our economy, but is something that we depend upon when we face times of uncertainty and crisis.

We know that social infrastructure is a big employer, but it is particularly important for young people and those marginalised in the labour market. Approximately 700,000 young people in the UK are employed in occupations linked to social infrastructure and over 60,000 disabled people work in pubs, shops, bars and clubs.⁴⁵ Nearly 1m people work in the voluntary sector, with hundreds of thousands of these working in small charities.⁴⁶

Social infrastructure is also critical in building social cohesion. During the Platinum Jubilee, we saw the way that charities, voluntary groups and local businesses were able to provide ways to bring people together in collective bonding.

Unfortunately, this social infrastructure is being rapidly eroded. A recent study by Locality found that over 4,000 public buildings and spaces are being sold every year. A high proportion never re-open. The number of pubs and libraries have also been in sharp decline.⁴⁷ Over 25% of pubs have closed their doors since 2001 and the number of libraries dropped by nearly

43 Frontier Economics, The Impacts of Social Infrastructure Investment, June 2021

44 Centre for Economics and Business Research, Contribution of the arts and culture industry to the UK economy: Report for Arts Council England, April 2019

45 Bennett Institute for Public Policy, Townscapes: The Value of Social Infrastructure, May 2021

46 NCVO, Civil Society Almanac 2021, 2021

47 Locality, The Great British sell off: how we're losing our vital publicly owned buildings and spaces, June 2018

30% from 2001 to 2018.⁴⁸ 70% of youth services closed between 2010 and 2016.⁴⁹ Locality also found that “the poorest places are often most reliant on public buildings and spaces”, therefore their closure has a “devastating impact” on communities which were already facing poorer outcomes.⁵⁰

When social infrastructure is well-maintained, accessible, attractive and safe, it positively shapes residents’ feelings about the standing of their community and the country. But when these places close, “pride...can give way to pessimism and disenchantment.”⁵¹ At the same time, people’s participation in the social, political and civic affairs of their community often depends on the presence of social meeting places.⁵²

This trend has also been driven by a lack of support for volunteering and voluntary organisations which provide the time and effort to maintain these important institutions.

This is a familiar story to many of us in our own constituencies where we have seen valued and loved spaces and services disappear.

Why is social infrastructure disappearing?

Why is this valuable infrastructure disappearing?

Technology means that people have less need to interact with each other directly and this has had a transformational impact on social infrastructure. High streets have come under well documented pressure, but the internet has also reduced footfall to other traditional institutions such as our libraries. A greater proportion of people are also choosing to develop social networks online.⁵³

48 Office for National Statistics (ONS) (2018). Public houses and bars by local authority, accessed July 2022

49 YMCA, Out of service: a report examining local authority expenditure on youth services in England and Wales, January 2020

50 Locality, The Great British sell off: how we’re losing our vital publicly owned buildings and spaces, June 2018

51 Bennett Institute for Public Policy, Townscapes: The Value of Social Infrastructure, May 2021 p.43

52 Ibid.

53 Office for National Statistics, Social Capital in the UK: 2020, February 2020

Assets have also been lost because of the choices that have been made by local councils. Many local spaces have been sold off in order to raise short-term revenue and funding that helped to leverage additional money and volunteering of local residents has been lost.

According to the latest data, over £3.2 billion worth of public spaces have been sold, transferred or moved out of community ownership since 2014/15.⁵⁴ Research by Sheffield Hallam University & found that there has also been a considerable fall in public grant income for smaller charities and voluntary organisations which operate this infrastructure.⁵⁵ In many cases this has happened without a full evaluation of the long term impacts of selling or cutting funding to social infrastructure.

On average, the cost of a social infrastructure asset over a 10 year period is £1.75m, with average annual revenue costs of £81,000 a year and capital costs of £32,000 a year.⁵⁶ Social infrastructure is valuable, but it is not cost free.

Society is constantly changing, and this means that the way we keep our social infrastructure alive needs to adapt as well.

We still need to support our local charities and voluntary organisations which are the backbone of our communities. Far too often, these groups are the first to go when times are tough, yet these are the very institutions that we rely upon to get us through these difficult periods. The state must take a long term view and recognise the immense value and contribution of these organisations and how this social infrastructure underpins our wider economic performance.

These charities create large amounts of both bridging and bonding social capital as well as providing institutions which others can work with and draw support from.

Small amounts of investment can generate significant returns. For example, the average small charity (income between £10-100k a year) leverages 5.62

54 Locality, More Evidence of the Great British Sell-off, 4 March 2019

55 Sheffield Hallam University & Lloyds Bank Foundation for England and Wales, The Value of Small, June 2018

56 Archer, T et al (2019) Our Assets, Our Future: the economics, outcomes and sustainability of assets in community ownership

volunteers for every £10,000 of income. This compares to 0.02 volunteers for every £10,000 of income for the largest charities.⁵⁷ These small local charities played a significant role during COVID with many of them stepping up to provide help using their unique skills and networks.⁵⁸ Many of these small charities and voluntary groups were also the “natural starting points for Mutual Aid activities.”⁵⁹

However, we also need to embrace new models of sustaining this social infrastructure which rely not just on donations and volunteering but use trade to bring in new sources of income or use existing business models to deliver other services. We must not repeat the mistakes of the Blair years, where just providing funding was seen as enough to solve these challenges.

Predictably, people have risen to the challenge to pioneer new ways to support these important local institutions. Social enterprises and community businesses are one of the fastest growing forms of organisation in the country.⁶⁰ These are entities which trade for a social purpose and reinvest their profits back into delivering that purpose. In response to the loss of funding or the need to save community assets, many places have created social enterprises and community businesses to generate new forms of income.

At the heart of these new models is finding ways to make them sustainable through blending a range of different activities together to create sustainable income or through expanding the reach of existing businesses to do more for the community. The Plunkett Foundation’s *More Than a Pub* programme found that community run pubs were able to generate social capital through running a range of community activities from lunch clubs to organising local celebrations.⁶¹ The Selby Centre in Tottenham is a typical example of how social enterprise models can sustain local social infrastructure. Taking over a former school premises from Haringey Council, a group of residents were able to turn this asset into offices, meeting rooms, training facilities, sports and events halls. It now houses 38 other

57 Ibid.

58 Sheffield Hallam University & Lloyds Bank Foundation for England and Wales, The ‘Value of Small’ in a Big Crisis, February 2021

59 New Local, Communities vs. Coronavirus: The Rise of Mutual Aid, July 2020 p.15

60 Power to Change & The Cares Family, Building our Social Infrastructure, October 2021

61 Plunkett Foundation, More Than a Pub – Final Report & Reflections, accessed 28 July 2022

organisations and hires out the meeting and training rooms. Alongside this it has supported the development of over 100 micro-businesses, showing how social capital can lead to economic change within a deprived community.⁶² In Sheffield, Heely People's Park has used community business to maintain vital green space. Through a development trust run by the local community, the park has been developed to provide everything from boulder climbing to picnic areas. It generates money through providing training in the local area and hosting music festivals.⁶³

The good news is that these models can be sustainable. Research from Power to Change has found that three-quarters of assets in community ownership were in "very good" or "good" financial health and almost half experienced improvements in their financial health over the previous three years.⁶⁴ The most recent *State of Social Enterprise* report from Social Enterprise UK found that despite COVID 74% of social enterprises made a profit or broke even and 44% grew their turnover.⁶⁵ Many of these social enterprises operate the social infrastructure that communities depend upon.

There is also a misconception that investments in social infrastructure generate returns over a longer period than other forms of infrastructure. This is not true. Frontier Economics research into social infrastructure showed that a positive return to society and the Exchequer can be achieved in ten years. This is far quicker than investments on large economic infrastructure projects like new roads, which can take decades before they generate a positive economic or social impact.

If we want to grow our economy faster and spread that growth more evenly throughout the country, we need to build on those important local institutions which can make a difference on the ground. Our social infrastructure is made up of thousands of local organisations from small charities and voluntary groups to small businesses and social enterprises. A partnership between these local institutions and government is essential to create a dynamic economy.

62 Locality, *The Future of Community Asset Ownership*, March 2018

63 Ibid.

64 Archer, T et al (2019) *Our Assets, Our Future: the economics, outcomes and sustainability of assets in community ownership*

65 Social Enterprise UK, *No Going Back: The State of Social Enterprise 2021*, October 2021

Collyhurst, Manchester

An inner-city area with a population of 3,000, once the centre of Manchester's industrial heartland, Collyhurst has suffered decades of decline and profound multiple deprivation. Today there are few local shops, facilities or community assets, with unemployment rates high, poor health and education outcomes, and higher rates of child poverty and crime. Over time, the Big Local partnership is changing this, in collaboration with local businesses, schools and other agencies. A business incubation space now provides units and support for enterprise with a community benefit remit. An organic food growing business is helping to address local food poverty and healthy eating issues; an upcycling business provides affordable furniture and up-skills people through courses and workshops. A construction academy provides training and support, enabling local people to access employment in Manchester's booming construction sector. A community café is planned. Longer term, the ambition is to set up a local Community Land Trust (CLT) run by local residents to develop and manage homes as well as other assets important to the community and fund community initiatives through rent generation.

Dover, Kent

Dover town has suffered from a lack of investment for many years. Boarded up shop windows litter the town centre and a proliferation of fast-food outlets, betting shops and pawnbrokers dominate the landscape. It has high unemployment and increasing issues with anti-social behaviour. 33 per cent of children are living in poverty and 30 per cent of people have no qualifications. The Dover Big Local Partnership's plan to improve the area is twofold: for the town

to become a hub for tourists; and to provide targeted support for local businesses. After consultation with residents, it has brought together key local stakeholders including P&O, English Heritage and Dover Council to work on a major new coordinated tourism project, 'Destination Dover', which is already increasing visitor numbers. An innovation warehouse and co-innovation space for local start-ups incubate businesses and provide mentoring and training support to help them grow, supporting local people into paid work. In the space of three months, 23 businesses signed up. A week-long 'Pop Up Business School' programme regularly attracts 40-50 people.

Watchet, Somerset

Watchet is a coastal town, based in the poorer end of the county of Somerset, with lower health outcomes and higher levels of benefit claimants than the rest of the county. After a property development plan fell through, the Onion Collective was founded to pool community resources and skills together to redevelop the marina quayside. Over several years, the Collective has restored the Boat Museum, community gardens and stimulates cultural tourism. The Collective is also creating a Biomill, to turn waste materials into market-leading products for the constructive industry, replacing environmentally damaging insulation materials. The Collective has grown successfully from scratch, now employing twelve people and seeing their revenue grow 14% in the year before COVID, with surpluses recorded.

Charitable foundations, such as Friends Provident Foundation, and government programmes, have been critical to the development of the Onion Collective through providing grants which enabled the project to get off its feet.

We must also do more to reach out to faith communities which already provide considerable amounts of social infrastructure. The combined revenue of 20,000 local churches and over 15,000 Christian charities is £11 billion a year.⁶⁶ Research by the National Charities Trust has found that church buildings generate £12.4 billion a year in economic and social value.⁶⁷ This includes over £200 million of community services, youth groups and other social activities.⁶⁸ Other religious groups are also likely to be contributing similarly significant amounts of resources. As we look to rebuild our social infrastructure, we must draw on support from all parts of our communities.

We must not be resigned to the loss of our social infrastructure.

These institutions are not a luxury that we can afford to see disappear without serious repercussions on our society or our economy.

As we have discussed in Chapter One, the backbone of our economy is our society.

⁶⁶ New Philanthropy Capital, Faith Matters, June 2016

⁶⁷ National Churches Trust, The House of Good, 2021

⁶⁸ Ibid.

Chapter 3. What is to be done?

Conservatives are not utopians. We do not believe that the state can dictate a more connected society.

But we do have confidence that if we can create the conditions in which people themselves can repair the social fabric of our communities, they will do so.

The first step is to recognise the importance of social capital and national identity to our economy.

This essay is an attempt to reacquaint the Conservative Party with the principle that economic growth is built on social foundations.

The second step is to act.

In doing this we are not working in the dark. We have plenty of ideas for works.

We can build on many of the ideas outlined in *Trusting the People – the case for community-powered conservatism*, authored by ten Conservative MPs in 2021.⁶⁹

In broad terms there are four things that we need to do.

Trust the people

Firstly, we need to trust the people. This is not just a slogan; it is a genuine effort to devolve power and responsibility to local communities.

Trusting the people must mean reforming the way that we do things and creating new means of accountability, so that people can take action rather than just looking to Whitehall.

⁶⁹ Trusting The People, October 2021

The Community Ownership Fund is a good example of this approach in practice. It has encouraged local communities to bring their own skills and resources to take control over important local assets. We should build on this and embrace the idea of a Community Wealth Fund that would create a long term endowment to invest in our social infrastructure.⁷⁰ This fund would also devolve funding right into the hands of local people in a similar way to the Big Local programme. Since 2012, this programme has given groups of neighbours in 150 disadvantaged places £1m to improve their neighbourhoods. The work has developed considerable amounts of social capital and strengthened the attachments that people feel to their local communities.⁷¹

A Community Wealth Fund is an independent endowment designed to put power and money in the hands of local people to bring essential, long-term, community-led investment to reinvigorate social infrastructure in left-behind neighbourhoods. It would provide patient funding over 10-15 years so that communities have time to develop sustainable solutions to preserve local social infrastructure. Decision making would be devolved to allow communities to decide how to use the funding, rather than being caught up in the bureaucracy of local authorities and public agencies. Communities would also be supported through capacity building support so that we do not leave places simply to fend for themselves.

We need to put in place policies which encourage communities to take responsibility for their areas. This does not mean shifting responsibility down to local councils or another group of politicians but putting power into the hands of local people. A pilot for Community Covenants, building on the success of the Wigan Deal, was promised in the Levelling Up White Paper and needs to be taken through to delivery.⁷²

At the centre of trusting the people must be spreading greater neighbourhood level governance. Parish Councils have been at the core of British life for generations and play a vital role in bringing people together

70 <https://communitywealthfund.org.uk/>

71 Local Trust, Power in our hands: An inquiry into place-based funding in the Big Local programme, July 2020

72 C. Naylor et al, A citizen-led approach to health and care: Lessons from the Wigan Deal, June 2019

to sustain local social infrastructure. We should do more to spread parish-style models across the country. These would complement the proposals for community covenants as well as provide a practical forum to strengthen local communities.

We should also build upon the contribution of volunteers to our community and where we can seek to strengthen voluntary action. The We're Right Here campaign makes the case that the power of community on show during the pandemic endures today, and should be supported to continue making a difference. Over 16m people volunteer across the UK every year and are the backbone of our villages, towns and cities. Their commitment to our neighbourhoods should give us confidence in the willingness of people to step up and take responsibility when they are given the chance to do so. Levels of volunteering have stagnated in recent years, a trend that we must address. We need to ensure that opportunities to volunteer and participate are widened. Investing in our social infrastructure is the best way to grow volunteering.

Volunteering does not take place without institutions and infrastructure to make it happen. Small charities provide the catalyst for action and the framework for people to find useful ways to use their time and expertise to help their community. We cannot expect volunteering to increase without strengthening the capacity of our small, local charities.

At the centre of all these issues is the family. There is no route to building a stronger society that does not involve strengthening families. Families are the source of our values and we need policies which support parents. The state cannot be a replacement for the family, but we can make family life more affordable, more attractive and more straight-forward. For example, the Holiday Activities and Food programme has been a great success and one that we should build upon. Pro-family policies are essential if we are to instil the values in future generations that maintain our social infrastructure.

Public service reform

Secondly, we need to reform the way that we deliver public services to grow our social infrastructure, not undermine it.

Too often we have ignored the work of our charities, faith groups and other organisations that bring people together. This has led to ever greater concentration of resources within the public sector to deal with the symptoms of social problems rather than investing in the infrastructure that helps to prevent them.

Fortunately, new ideas are emerging in the delivery of public services which could help to build community-powered public services. “Social prescribing” encourages residents and patients to take part in social activities, often delivered by voluntary groups, rather than clinical interventions. In Rotherham, the local Clinical Commissioning Group has taken this approach and seen extraordinary results. Inpatient admissions have been reduced by as much as 21%, A&E admissions have been reduced by as much as a fifth, outpatient admissions reduced by a similar level and even greater reductions were identified for patients who were referred to local community services. Over five years, it is estimated that the local NHS could save around £1m a year – a return on investment of £1.98 for every pound spent on the service.⁷³ This is the “radical help” that social entrepreneur Hilary Cottam has identified in communities across the country, often in the places that we are seeking to “level up” such as Rotherham, Wigan and Fleetwood.⁷⁴ The benefit of approaches such as social prescribing is that they create significant levels of social capital, encourage agency and provide a valuable source of income to sustain local infrastructure.

One of the biggest successes in public service reform over the past decade has been the development of public service mutuals. These are staff and community-owned entities which span out of the public sector. They put staff and local people directly onto boards, reaching out to parts of the community that have often been ignored by the traditional public sector.

Eighty five of these mutuals have been created in areas such as adult social care, health and education. This different approach to governing local services has created strong results. Research commissioned by DCMS found that unlike many of their peers in the public sector, these mutuals

⁷³ The Rotherham Social Prescribing Service for People with Long-Term Health Conditions, Sheffield Hallam University, December 2015

⁷⁴ H. Cottam, *Radical Help: How we can remake the relationships between us and revolutionise the welfare state*, June 2018

have found ways to be financially sustainable through higher levels of productivity, innovation and adaptation.⁷⁵ In social care, to take one example, mutual run care services are less likely to be rated as inadequate or requiring improvement than those run by private companies or councils.⁷⁶

Mutuals work much more closely with their communities than traditional delivery methods, building higher levels of social capital and investing in local infrastructure.

The art of conservatism is to reform where necessary, but in doing so to embrace the tried and tested methods of the past.

Although we need to pioneer new ways to maintain our social infrastructure, we should not ignore the value of grants as a simple, effective way of supporting local institutions. The complexity of contracting and commissioning is not always necessary. It was the mistake of New Labour to slap targets and metrics on everything. A village hall is a village hall. It does not need to be measured, we can see with our own eyes the impact it has. The same is true for many of the community assets that we rely upon.

In many cases we spend more money through a 'competitive process' than we would do simply handing the cash directly to local organisations which know best how to run things. Small amounts of money can make a big difference to local charities and voluntary organisations leveraging in donations from other sources and volunteers. Social infrastructure is valuable, and the state should be prepared, within reason, to provide some of the resources required to maintain it. Targeted and effective grant making has a role to play in our future.

Renewed grant making should be part of a reform to the way that we spend and use public money.

As Members of Parliament we are constantly aware of the silos that dominate the public sector. Important local services or assets which provide benefits to everyone often come from one budget with other agencies

⁷⁵ Social Enterprise UK, Public Service Mutuals, April 2019

⁷⁶ IPPR, Ethical Care: A Bold Agenda for Adult Social Care, November 2019

free-riding on that spending. When that budget comes under pressure, money can disappear which has a cascade effect throughout the entire local community. This is no way to work.

Place-based budgeting is a solution. A study by Ernst & Young in January 2013 found that place-based budgets, which pool together local public service funding in an area around shared objectives, allow for more flexibility on how money is spent on different agencies.⁷⁷ This enables local social infrastructure to be preserved and ensures that we consider the entire impact of decisions rather than thinking about them through the eyes of one budget holder. Interestingly, this approach could have benefits beyond simply preserving local infrastructure. The same study found that place-based budgets could save up to £20 billion over a five year period based on pilots taking place around the country. Place-based budgets would also give local people the chance to participate in decision making, not just politicians. It would also reverse the silos and bureaucracy created by Blairism.

One of the frustrations of local communities is that money often does not flow to the social and civic infrastructure that they would like to see funded. Place-based budgeting must not put more power into the hands of officials, it must be a genuine effort to devolve power and responsibility into the hands of local people. It would also help communities to preserve their local social infrastructure by giving them greater control over local spending.

Social enterprise

Thirdly, we need to find ways to support the social enterprises and community businesses which are increasingly responsible for maintaining our social infrastructure through trade and entrepreneurship.

One way that we could do this is through developing a Community Enterprise Growth Plan which provides investment and business support for people that want to set up businesses that build social capital and maintain social infrastructure.

⁷⁷ Local Government Association, Whole Place Community Budgets: A Review of the Potential for Aggregation, Local Government Association, January 2013

Experts have come together to outline what such a plan could look like based on using Dormant Assets to bring investment directly to the most deprived areas.⁷⁸ The plan would involve providing 'blended finance' (a mixture of grant and loan finance) to enterprises alongside place-based business support (business skills training, coaching, mentoring etc). The plan also incorporates innovative new mechanisms such as 'match-trading' which link funding to the growth of the enterprise, incentivising businesses to grow their own income rather than become dependent on state-backed finance or grants.

It is estimated that the plan could unlock private and philanthropic capital pound for pound, effectively doubling the government's investment and generating a much larger impact.⁷⁹

An independent commission into the gaps in finance for such businesses estimated that a plan of this scale could generate 100,000 jobs over the next ten years, adding £3 billion to the UK economy and generating £1 billion in revenues for the Exchequer.⁸⁰ The benefit of this approach would be using enterprise and trade to grow social capital within communities so that we can create institutions that can last for generations and are resilient to future shocks.

We also need to use existing policies better in order to support social businesses that can make our communities resilient. For example, we should expand the Kickstart Enterprise scheme to include new social businesses, so that we support all forms of entrepreneurship.

Through using existing institutions to get this plan moving, there is a good chance that money could be deployed in communities across the country before the next election.

Using enterprise, not just philanthropy, to rebuild our social infrastructure is a Conservative approach to this pressing challenge.

⁷⁸ www.communityenterprise.uk

⁷⁹ Ibid.

⁸⁰ Lord Victor Adebawale CBE et al, *Reclaiming the Future*, January 2022

The role of business

Fourthly, we need to encourage a much stronger connection between business, our communities and our nation.

There is no solution to the challenges that we have outlined in this essay without the power of business. The decisions made by businesses have a significant impact on the success and failure of our communities and the country as a whole.

We depend on the skill and ambition of our businesses. But they also depend on us.

Without a strong society, business cannot succeed. Business cannot opt-out of society.

However, this is not a plea for more 'corporate social responsibility'. The best thing that businesses can do is to focus on growing over the long term, investing their capital in people, places and ideas. Initiatives such as the Kickstart Programme, which has seen over 160,000 jobs created, show the potential for business and government to work together to create policies which encourage long term investment in people and communities.

We also need business to increase the resilience of our communities. The UK has one of the world's most sophisticated financial services sectors. We should use that talent to develop ideas that widen financial inclusion and ensure that everyone has the financial security to be able to make a full contribution to society.

The problem is that businesses have increasingly come under pressure from the short-term expectations of the market. Leaders of businesses often know what is right for their company, their community and the country, but they do not feel empowered to take those decisions. Instead they feel that they have to make short-term concessions to private equity firms or shareholders that want quick cash.

We can help founders, entrepreneurs and business leaders keep control

over their business with the right reforms to the governance of our firms. A campaign for reforms to the Companies Act and the creation of a 'Better Business Act', has now received backing from the Institute for Directors and over 1000 UK businesses. For example, a simple change to section 172 of the Companies Act would give directors the ability to consider social and environmental purposes in setting corporate strategy. This would give them the ability to challenge those pushing for short-term returns and ignoring the long term interests of the business.⁸¹

A stronger connection between business and communities will give entrepreneurs and investors the trust and confidence that founding new businesses in a place is worthwhile. It will also boost investment and growth over the long term.

Funding

The final step is to find the resources to make these policies a reality. Money is not a panacea for all the challenges that we have outlined. It is tempting for governments simply to think that a small pot of funding can make a problem disappear. We must take the more difficult road to reform our institutions to support our social infrastructure so that any funding is well spent.

Some of this resource can come at no expense to the taxpayer, such as Dormant Assets or through leveraging in philanthropy and investment from the private sector.

Some resources can come from better use of existing monies. For example, the UK Shared Prosperity Fund will provide £2.6 billion in investment for communities by March 2025, with a strand to support social investment. However, it is not clear how much of the fund will support this vital infrastructure. One suggestion from the Communities in Charge campaign is that 25% of UK Shared Prosperity Fund money should go directly to community-led partnerships for social infrastructure.⁸² Clearer guidance on monies is essential to ensure that the right balance of investment is struck.

⁸¹ www.betterbusinessact.org, accessed 29 July 2022

⁸² Communities in Charge campaign, <https://locality.org.uk/policy-campaigns/communities-in-charge/>

For example, of the £9 billion allocated to levelling up initiatives so far, most of this resource has gone on physical infrastructure projects rather than maintaining and preserving social infrastructure.⁸³ The government has committed £600 billion in infrastructure investment over this Parliament, but only £150 million has been set aside to support community assets.⁸⁴ As a recent report from Power to Change and the Cares Family noted “[new] infrastructure projects or measures to spread economic opportunity will not reverse or counteract the structural changes which have led people to feel detached from their local communities.”⁸⁵

The point is not that we should not invest in road, rail or digital infrastructure. The point is that if we are going to invest hundreds of billions of public monies into these projects then we should think about complementary investment in social infrastructure including volunteering and social entrepreneurship which can catalyse and sustain the intended economic effects of that infrastructure.

All the evidence, case studies and examples that we have set out in this paper shows the importance of high levels of social capital and national identity.

Unfortunately, there is a clear bias in the way that government thinks about different forms of infrastructure. In part this is because although social capital and civic mindedness are critical to our economy, they are not easy to measure. This has led officials to ignore its value.

We recommend that HM Government creates a new “Social Infrastructure Mandate”, in which Government Departments are obliged to report on the proportion of their spending that goes to social infrastructure.

This mandate would be overseen by the National Infrastructure Commission which would also have its remit expanded to consider social infrastructure. The Commission would report to Parliament every five years on the state of the nation’s social infrastructure.

83 Bennett Institute for Public Policy, Townscapes: The Value of Social Infrastructure, May 2021

84 HM Treasury, Policy Paper: Autumn Budget & Spending Review 2021, 23 December 2021

85 Power to Change & The Cares Family. Building our Social Infrastructure. October 2021 p.39

Conclusion

Conservatives have always known that a strong economy depends on a strong society.

The key to a successful economy is to have high levels of social capital combined with a strong sense of national identity. Countries which can combine both these things are richer, happier and healthier than their competitors.

We start in a great position. As we have shown during the pandemic and in this Platinum Jubilee year - and perhaps especially during the extraordinary expression of national grief and patriotism at the death of The Queen - our sense of community and nationhood runs deep.

But we have allowed our social fabric to fray. We have taken for granted the legacy of previous generations and have developed a narrowly economic vision of what makes a country successful.

Nations are not built by accident. If we want to have a strong society in the future, we must take the action necessary to make it so.

The benefit to the country is clear, but it is also essential for the future of the Conservative Party.

We will only win the next election if we can demonstrate that we have delivered on our promise to level up the country and get our economy growing faster after Brexit.

All the evidence shows that if we do not find ways to improve levels of social capital and bring our country back together, we will not achieve any of these things.

The national interest is the Conservative Party's interest.

There is still time before the next election to make progress on this agenda. All we need is the courage of our convictions.

Trusting the people

This is the second in a series of papers produced by the New Social Covenant Unit. 'Trusting The People' (2021) authored by ten Conservative MPs made the case that supporting community power sits well within the conservative tradition.



If you would like to support the work of the Unit, please do get in touch.

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nscu

Established in 2021 by Miriam Cates MP and Danny Kruger MP, the New Social Covenant Unit exists to share an old-new set of ideas in British politics. We believe that the primary purpose of public policy should be to strengthen families, communities, and the nation: the associations that make individuals happy, safe and free. Given the unique threats and opportunities of our age we need a 'new social covenant' for the 21st century.