THE HANDBOOK OF

SOCIAL CAPITAL

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Edited by

DARIO CASTIGLIONE
JAN W. VAN DETH
and
GUGLIELMO WOLLEB

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Preface and Acknowledgements

During the last twenty years 'social capital' has rapidly become an established concept in social research, capturing and systematizing into a broad theoretical paradigm a number of long-standing intuitions and discourses on the importance of social relationships as *accumulated resources* for both individuals and society. Its earlier theorizations were in sociology, but its academic and popular success grew from its application to politics and economics as a way of explaining what makes democracy work and economies develop respectively. Its application has progressively extended into many other areas of research, from management to health, and to most disciplines in the social sciences.

As the idea of social capital has spread, the literature which either discusses it or uses it as a causal factor and an interpretative tool has multiplied exponentially. The fortune of social capital has extended to political and policy-making circles at local, national, and international levels, in the process forcing changes in the way in which social surveys are conceived and policies assessed. The flurry of studies on both the theoretical nature of the concept and its applicability has subjected it to intense scrutiny, provoking both enthusiasm and criticism. After twenty years of rapid expansion it may be time for a more considered assessment of how the original concept has been adapted and refined, and how successful its application has been.

This Handbook is intended to offer a state-of-the-art view of both the subject and the way in which the study of social capital has developed in the last twenty years. It thus provides an opportunity for assessing both the strengths and limits of the idea of social capital, and, eventually, its durability as a key concept in social research. The organization of the Handbook reflects this intention by focusing on conceptual development and analysis in the first part; by identifying two main areas of research in which social capital has favoured the development of new and influential research programmes: political participation in democratic societies, and economic development; and by finally exploring the more normative and policy-oriented consequences of social capital.

All chapters comprising this volume were specifically written for the Handbook. Many of the authors have extensively written on the subject and are amongst those who have most contributed to the critical analysis of the concept and to its empirical application. They were, however, asked to take a fresh look at the subject. Moreover, not all authors are sympathetic to the idea of social capital and to its application, so that the volume reflects the balance of views that one finds in the literature at large. Hopefully, all this makes the Handbook both an authoritative introduction to social capital studies and a source for new thinking and critical development.

The idea of the Handbook first took shape at a EURESCO Conference on 'Social Capital: Interdisciplinary Perspectives', organized at Exeter, with the financial support of the European Science Foundation and a contribution from the European Commission. We also received some financial help from the ESRC Programme 'One Europe or Several?' We are grateful to all those institutions for the opportunity they offered us to put together a distinguished group of speakers and engage in a conversation on the subject, which has extended through time and resulted in the present volume. A number of the speakers at the conference are represented in the volume, although in the course of the years the cast of contributors has changed somewhat, and the book now comprises many authors who were not present at the original event.

In the course of the preparation of the Handbook, we have also been helped by our own institutions. The Mannheim Centre for European Social Research (MZES) generously provided funds for our last editorial meeting; and, together with the Departments of Economics of the University of Parma and that of Politics of the University of Exeter, funded the work of technical support we needed during the preparation of the manuscript. We gratefully acknowledge their help, as we do that of the persons who provided it materially, through their work: Rob Lamb, Christian Schnaudt, Dilys Thorp, and Jocelyn Vaughn. Dario Castiglione wishes also to acknowledge the support of the 'Center for Democracy and the Third Sector' of Georgetown University (Washington, DC), where he was Senior Research Fellow from 2003 to 2005, and the Center's Director, Professor Steven Heydemann.

As editors of multi-authored volumes know very well, there are many hazards in preparing such collections, the main one being of any of those involved in the project missing their deadlines. A Handbook of twenty-four chapters and thirty-two contributors (all of them busy academics with many other activities and publications to juggle with) is no easy enterprise to pull off in time. And indeed, in our case, the deadlines were moved forward several times. We are grateful to all those who promptly met their own deadlines for the trust they put in us, waiting patiently for the book to be completed. We are equally grateful to all contributors for positively responding to the many requests for changes and revisions that we, as editors, made on them in the attempt to give some unity to the Handbook.

We need, finally, to extend our gratitude to Dominic Byatt, our editor at OUP, for his help throughout the different phases of production of this volume, and for the patience with which he has waited for its completion.

Although our main intention in preparing this book was entirely selfless – that of adding something to the stock of academic knowledge – we readily admit to have profited from it. Indeed, as a by-product of the network of exchanges and communication that we have cultivated during its preparation, we have considerably increased our own stock of social capital.

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JWvD
GW

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Contributors

T. K. Ahn is Assistant Professor of Political Science at Florida State University and Assistant Professor of Public Administration at Korea University. At Florida State University, he is a member of the Experimental Social Science group. His recent research focuses on experiments on endogenous group and network formation for collective action and political communication. Recent publications include *Foundations of Social Capital* (with Elinor Ostrom, 2003).

Alessandro Arrighetti is Professor of Industrial Economics and Chair of BA and Master Programmes in Development Economics and International Cooperation (Faculty of Economics, University of Parma). He is currently director of the Centre for International Cooperation at the University of Parma. His main research interests are in the theory of collective action, coordination problems in agent-based contests, and the role of institutions and local governments in the development process. He has published in the *Cambridge Journal of Economics*, *Southern Economic Journal*, *Small Business Economics*, and other journals of economics.

Dario Castiglione is Reader in Political Theory at the University of Exeter. His main research interests are in the history of political thought, theories of democracy and civil society, and European constitutionalism. His publications comprise edited volumes on *The Constitution in Transformation* (1996), *The History of Political Thought in National Context* (2001), *The Culture of Toleration in Diverse Societies* (2003), *Making European Citizens* (2006), and *The Language Question in Europe and Diverse Societies* (2007); and a study of *Constitutional Politics in the EU* (2007).

Domenico Cersosimo is Professor of Regional Economics at University of Calabria. He is a member of the Regional Studies Association and of the 'Società italiana degli Economisti'. His recent publications include *Mezzo giorno: realtà, rappresentazioni e tendenze del cambiamento meridionale* (2000) (with C. Donzelli); *Economie dal basso: un itinerario nell'Italia locale* (2006) (with G. Wolleb).

Flavio Comim is a Development Economist. He is a fellow of St Edmund's College, University of Cambridge. His areas of research comprise development economics, poverty, inequality, and social capital theories, with particular emphasis on the capability approach. He has published papers in journals such as *History of Political Economy*, *Review of Political Economy* and *Structural Change and Economic Dynamics*.

Steven N. Durlauf is the Kenneth J. Arrow Professor of Economics at the University of Wisconsin-Madison and Research Associate at National Bureau of Economic Research. His main research interests are in econometrics and macroeconomics. He has published many articles in books and economic journals such as *Journal of Econometrics*, *Economic Journal*, *Economic Theory*, and co-edited numerous volumes, more recently, *The Economy as an Evolving Complex System III* (2006), *Poverty Traps* (2006) and *Econometric Theory and Practice: Frontiers of Analysis and Applied Research* (2006).

Hartmut Esser studied Economics and Sociology at the University of Cologne. Since 1991 he has been a Full Professor of Sociology and Philosophy of Science at the University of Mannheim. He has co-authored over 180 papers in refereed journals and collected volumes, and either co-authored or edited over sixteen books, comprising *Aspekte der Wanderungssoziologie* (1980); *Alltagshandeln und Verstehen*: *Zum Verhältnis von erklärender und verstehender Soziologie am Beispiel von Alfred Schütz und Rational Choice* (1991); *Soziologie: Allgemeine Grundlagen* (1993); *Soziologie: Spezielle Grundlagen* (6 vols.) (1999–2001); *Sprache und Integration* (2006). His current research interests include theory of the social sciences, sociology of family, migration, interethnic relationships, ethnic conflicts, and sociological theories of action.

Meindert Fennema holds a chair in Political Theory of Ethnic Relations at the Universiteit van Amsterdam. He also is programme leader at the Institute of Migration and Ethnic Studies in Amsterdam. His doctoral dissertation on *International Networks of Banks and Industry* was published in 1982. In 2002 with William K. Carroll he revisited his doctoral research. With Michael Waller he published *Communist Parties in Western Europe* (1988). He has written on Dutch policy networks and discourses in the decolonization of Indonesia. More recently he has co-authored various articles on anti-immigrant parties in Western Europe (with Wouter van der Brug and Jean Tillie) and on the rules and regulations of democratic debate. His present research is on political participation of ethnic communities in Amsterdam and in various other European cities. With Jean Tillie he coordinates a European network of researchers that are engaged in this type of research. He is presently writing a political biography of Hans Max Hirschfeld. He sits on the editorial board of *International Sociology.*

Laura Foschi is currently general director of the Consorzio Etimos in Italy where she coordinates and provides training and technical assistance as well as strategic planning for microfinance programme in developing countries. She also teaches Micro Finance systems at the University of Parma. She additionally worked as a consultant for CEPAL (Comissión Económica para America Latina y Caribe) on the development of the microcredit programme for the municipality of Buenos Aires. She was also consultant for the Italian institute for Africa and the East. She has written publications on social banking as well as finance for development and she participated as an expert on different international meeting in sustainable development and social banking. Most recent publications with other authors: *Microfinanzas en America Latina*, (2000), 'The Ethical Banking for a Growing Social Demand: The Italian Case of Banca Etica,' in *Banking and Social Cohesion* (2000), *Finance for Local Development: New Solution for Public-Private Action* (2001).

Marc Hooghe is Associate Professor of Political Science at the Catholic University of Leuven (Belgium). He has published mainly on political participation, social capital, and political socialization. He is director of the Centre for Citizenship and Democracy, president of the Belgian Political Science Association and editor of *Acta Politica: International Journal of Political Science.* Recently his work has appeared in *Electoral Studies*, *Party Politics*, *British Journal of Political Science*, *Political Behavior*, and other journals.

Bill Jordan is Professor of Social Policy at Plymouth and Huddersfield Universities and Reader in Social Policy at London Metropolitan University. He has held visiting chairs in Germany, the Netherlands, Denmark, Slovakia, Hungary, and Australia. He is the author of more than twenty books on social policy, social work, social and political theory, and political economy, the latest of which is *Social Policy for the Twentieth Century: New Perspectives, Big Issues* (2006).

Anirudh Krishna is Assistant Professor of Public Policy and Political Science, Duke University. His research investigates how poor communities and individuals in developing countries cope with the structural and personal constraints that result in poverty and powerlessness. Most recently, Krishna has been examining poverty dynamics at the household level, tracking movements into and out of poverty of over 25,000 households in a varied group of 225 communities of India, Kenya, Uganda, Peru, and North Carolina, USA. Earlier, he examined how poor community groups interact with states and markets, presenting these results in *Active Social Capital: Tracing the Roots of Development and Democracy* (2002). Before turning to academia, Krishna worked for fourteen years in the Indian Administrative Service, where he managed diverse initiatives related to rural and urban development.

Herman Lelieveldt is assistant professor of political science at Roosevelt Academy in Middelburg, The Netherlands, one of Utrecht University's international honours colleges. He served as executive director of the Netherlands Institute of Government, the Dutch graduate school for political science and public administration. His current research focuses on the 'plebiscitarian turn' in neighbourhood policies and its impact upon the role of civic organizations. Recent publications include two co-authored chapters on their activities in W. Maloney and S. Rossteutcher (eds.), *Social Capital and Associations in European Democracies: A Comparative Analysis* (2006).

Nan Lin is the Oscar L. Tang Family Professor of Sociology in Trinity College and Professor of Sociology at Duke University. He is an Academician and a Distinguished Research Fellow at the Academia Sinica, Taiwan. He is also a member of the Sociological Research Association and a member of the International Curatorium, Interuniversity Center for Social Science Theory and Methodology (ICS), the Netherlands. He was a former Vice-President of the American Sociological Association and Director, the Asian/Pacific Studies Institute at Duke University. His recent publications include: *Social Capital: A Theory of Social Structure and Action* (2001).

Vivien Lowndes is Professor of Local Government Studies at De Montfort University, Leicester. Previously at the University of Birmingham and the University of Essex, she also has experience of working in local government and the voluntary sector. She has served as a Specialist Advisor to the House of Commons Public Administration Committee and as an expert for the Council of Europe in the field of democratic reform. She is the author of thirty articles in refereed journals, focusing on issues of citizen participation, local governance, social capital, and 'new institutionalism'.

William A. Maloney is Professor of Politics, School of Geography, Politics and Sociology, Newcastle University. His main research interests are in the areas of interest group politics, social capital, participation, and non-participation. He has published extensively in these areas and is completing two forthcoming volumes: *Interest Groups and the Democratic Process: Enhancing Participation?* (2006 with Grant Jordan) and *Social Capital and Associations in European Democracies* (2006, co-edited with Sigrid Roßteutscher).

Kenneth Newton is Professor of Comparative Politics at Southampton University and teaches at the Hertie School of Governance, Berlin. He is currently Visiting Professor at the Wissenschaftszentrum Berlin. He was previously Professor of Government at the University of Essex and Executive Director of the European Consortium for Political Research. He has served on the Executives of the PSA, IPSA, and the ECPR. Recent publications include *The Foundation of Comparative Politics*, with J. van Deth (2005), *The New British Politics*, 4th edn., with Budge, McKay, and Bartle (2006), and articles on social trust, and the mass media and politics.

Rosanna Nisticò is Associate Professor of Institutional Economics at the University of Calabria. Among her recent publications are *Imprese, contratti, incentivi: elementi di economia delle istituzioni* (2005); 'Public Regulation as a Substitute for Trust in Quality Food Markets: What if the Trust Substitute Cannot Be Fully Trusted?' in *Journal of Institutional and Theoretical Economics* (2004, with G. Anania).

Elinor Ostrom is Arthur F. Bentley Professor of Political Science; Co-director of the Workshop in Political Theory and Policy Analysis, Indiana University, Bloomington; and Founding Director, Center for the Study of Institutional Diversity, Arizona State University. She is a member of the American Academy of Arts and Sciences, the National Academy of Sciences, and the American Philosophical Society, and a recipient of the Frank E. Seidman Prize in Political Economy, the Johan Skytte Prize in Political Science, the Atlas Economic Research Foundation's Lifetime Achievement Award, and the John J. Carty Award for the Advancement of Science. Her books include *Governing the Commons* (1990); *Rules, Games, and Common-Pool Resources* (1994, with Roy Gardner and James Walker); *Local Commons and Global Interdependence: Heterogeneity and Cooperation in Two Domains* (1995, with Robert Keohane); *Trust and Reciprocity: Interdisciplinary Lessons from Experimental Research* (2003, with James Walker); *The Commons in the New Millennium: Challenges and Adaptations* (2003, with Nives Dolšak); *The Samaritan's Dilemma: The Political Economy of Development Aid* (2005, with Clark Gibson, Krister

Andersson, and Sujai Shivakumar); *Understanding Institutional Diversity* (2005); and *Understanding Knowledge as a Commons: From Theory to Practice* (2007, with Charlotte Hess).

Lawrence Pratchett is Professor of Local Democracy and Director of the Local Governance Research Unit at De Montfort University, where he has been based since 1993. His research interests focus on all aspects of local democracy but especially political participation, both off-line and on-line. He has published several edited books and numerous articles on the topic. He was academic adviser to the UK government's Local e-Democracy National Project, as well as sitting on the Council of Europe's advisory group for its green paper on the Future of Democracy in Europe. He is also expert adviser to the Council of Europe's ad hoc committee on e-democracy.

Elizabeth Radin is a Consultant at the World Bank where she works on social development, poverty reduction, and economic empowerment. Previously, she worked in operations management and programme development for Ubuntu Education Fund, a South African NGO engaged in community-based health, education, and small business initiatives. She has also advised Ashoka, a pioneer in the field of social entrepreneurship, on supporting civil society in expanding its impacts in India. She holds a Bachelor's degree from the University of Pennsylvania and a Masters in Public Policy from the Kennedy School of Government at Harvard University.

Martin Raiser is Economic Adviser in the Country Office of the World Bank in Ukraine. He previously served as Country Manager for the World Bank in Uzbekistan and as Director for Country Strategy and Analysis at the European Bank for Reconstruction and Development in London, where he was editor of the annual Transition Report from 1999 to 2003. He is on the editorial board of the *Journal of Comparative Economics* and has published widely in the field of transition and development economics. Recent academic publications include 'Home Grown or Imported? Measures and Determinants of Institutional Change in Eastern Europe and the Former Soviet Union', with Maria di Tomaso and Melvyn Weeks, forthcoming in the *Economic Journal*.

Sigrid Roßteutscher is a project director at the Mannheim Centre for European Research (MZES) and the Centre for Methods and Survey Research (ZUMA). Her main interest is in political, social, and religious participation, values and social inequality, and in concepts of democracy, in particular recent theories about associations' and religion's role in contemporary democracy.

She has a Ph.D. from the European University Institute (EUI) in Florence, Italy, and completed her Habilitation at the University of Mannheim. She co-directed an international project on 'Citizenship, Involvement, Democracy' (CID) and is currently directing a national initiative to institutionalize a German election study system. Recent publications include *Social Capital and Associations in European Democracies* (with William Maloney, Routledge 2007).

Bo Rothstein holds the August Röhss Chair in Political Science at Göteborg University in Sweden. He has been a visiting scholar at the Russell Sage Foundation, Cornell University, Harvard University, Collegium Budapest, and the University of Washington in Seattle. Among his publications in English are *Social Traps and the Problem of Trust* (2005), *The Social Democratic State* (1996); *Just Institutions Matters: The Moral and Political Logic of the Universal Welfare State* (1998), and *Creating Social Trust in Post-Socialist Societies* (together with Janos Kornai and Susan Rose-Ackerman 2004).

Gilberto Seravalli is Professor of Development Economics at the University of Parma (Italy) and Dean of the Political Science Faculty at the same University. Recent publications include *More State for More Market* (2006).

Dietlind Stolle is Associate Professor in Political Science at McGill University, Montréal, Canada. She conducts research and has published on voluntary associations, trust, institutional foundations of social capital, and new forms of political participation, particularly political consumerism. She is also the co-principal investigator of the unique longitudinal Comparative Youth Survey (CYS) as well as associate director of the US Citizenship, Involvement and Democracy (CID) survey. Her work has appeared or is forthcoming, for example, in the journals *British Journal of Political Science, Comparative Politics, International Review of Political Science, Political Behavior, Political Psychology*, and in various edited volumes.

Jean Tillie is associate professor in the political science department and co-director of the Institute for Migration and Ethnic Studies at the University of Amsterdam. His research focuses on the political integration of immigrants in European cities; extreme-right voting behavior in Europe, and radicalization processes within Muslim communities. He is now finishing a book on *Multicultural Democracy*.

Eric M. Uslaner is Professor of Government and Politics at the University of Maryland, College Park. He is the author of seven books and approximately

120 articles and has received grants from the National Science Foundation, the Russell Sage and C.V. Starr Foundations, and the Embassy of Canada. His most recent book is *The Moral Foundations of Trust* (2002) and his new book in preparation is *The Bulging Pocket and the Rule of Law: Corruption, Inequality, and Trust*.

Jan W. van Deth is Professor of Political Science and International Comparative Social Research at the University of Mannheim (Germany). He was Director of the Mannheim Centre for European Social Research (MZES) and is a Corresponding Member of the Royal Netherlands Academy of Arts and Sciences. He was convenor of the international network Citizenship, Involvement, Democracy (CID) of the European Science Foundation and is national coordinator of the German team for the European Social Survey. Recent publications include *Foundations of Comparative Politics* (with Kenneth Newton, 2005); and *Citizenship and Involvement in European Democracies: A Comparative Analysis* (ed. with Jose Ramon Montero and Anders Westholm, 2007).

Mark E. Warren holds the Harold and Dorrie Merilees Chair for the Study of Democracy and Director of the Centre for the Study of Democratic Institutions at the University of British Columbia. He came to UBC from the Department of Government at Georgetown University, where he co-founded the Center for Democracy and the Third Sector. His current research interests include new forms of citizen participation, new forms of democratic representation, the relationship between civil society and democratic governance, and the corruption of democratic relationships. He is author of *Democracy and Association* (2001), which was the 2003 winner of the Elaine and David Spitz Book Prize awarded by the Conference for the Study of Political Thought, and also received the 2003 Outstanding Book Award from the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA). Recent publications include 'Democracy and Deceit: Regulating Appearances of Corruption', *American Journal of Political Science* (January 2006), and 'What Does Corruption Mean in a Democracy?' *American Journal of Political Science* (April 2004).

Guglielmo Wolleb is Professor of Economics at the University of Parma (Italy). He teaches Microeconomics and European Regional Policies, and is Director of the Master in 'Manager of Development and Cohesion Policies,' and President of the post-graduate course 'Local Development and

International Cooperation'. His current research focuses on local development policies in Italy and Europe. His most recent book, is *Economie dal basso: un itinerario nell'Italia locale*, with Domenico Cersosimo (2006). He has collaborated on European projects and policies and has acted as evaluator of European programmes on social and economic cohesion.

Michael Woolcock is a Senior Social Scientist with the World Bank's Development Research Group, and Research Director of the University of Manchester's Brooks World Poverty Institute. His research draws on a range of disciplinary theories and methods to explore the social dimensions of economic development, in particular the role that social networks play in the survival and mobility strategies of the poor, in managing local conflict, and in shaping the efficacy of political institutions. An Australian national, he has an MA and Ph.D. in sociology from Brown University, and in 2002 was the Von Hugel Visiting Fellow at St Edmund's College, University of Cambridge; from 2000 to 2006 he was also a (part-time) Lecturer in Public Policy at Harvard University's Kennedy School of Government. He has been invited to speak on various aspects of development research and policy in thirty-five countries, has been a team member of two World Development Reports, and has had his published work translated into seven languages. His most recent book (co-edited with Caroline Sage) is *Law, Equity and Development* (Amsterdam: Martinus Nijhoff Publishers, 2006).

SOCIAL CAPITAL'S FORTUNE: AN INTRODUCTION

DARIO CASTIGLIONE
JAN W. VAN DETH
GUGLIELMO WOLLEB

Social capital is a relatively new term of art. In the more specific sense in which it is currently deployed, it is probably twenty or so years old. In those twenty years it has had spectacular success: it has been increasingly used in many disciplines of the social sciences; it has been made the object of numerous studies and has been discussed in thousands of academic papers; and it has become the focus of surveys and policy initiatives. Nonetheless, its precise origins are rather uncertain, its exact meaning hotly disputed, and its utility in the scientific discourse remains contested. This is less paradoxical than it may at first appear. Intellectual and academic success does not come without some controversy. One question that implicitly underlies this Handbook is whether social capital is now firmly established within the conceptual vocabulary of the social sciences. A definitive answer to this question may only emerge with time. For the moment, we can more properly speak of its origins, diffusion, and success—although something about its future can already be ventured.

The expression 'social capital' appears in nineteenth-century economic writing (Farr 2004: 10; Woolcock 1998: 159), but with no consistency in its use, and with a very different meaning from how it is now commonly understood. As suggested by Robert Putnam (2000: 19), the earliest use that closely approximates to its current meaning can be found in Lyda J. Hanifan in the second decade of the twentieth century. Hanifan was a rural educator and a practical reformer (Farr 2004: 11–14). He was keen to stress that his use of 'capital' was metaphorical, and that by 'social capital' he meant the progressive way in which a community—its spirit and its joint activities—is built. Hanifan was particularly interested in the practical means and initiatives through which such a task could be accomplished, mentioning the important role that community gatherings play in it, first for general entertainment, and later for more constructive purposes. (Hanifan 1920: 79). But he already showed some theoretical insight by identifying social capital with the building up of social connections and sociability; as he put it, with 'good will, fellowship, sympathy, and social intercourse' (ibid. 78).

In its way, Hanifan's intuition was remarkable, but remained both underdeveloped and unexplored. As such, it did not offer any dramatic new insight beyond traditional convictions about the importance of civic education and civic activism, or beyond the Tocquevillian analysis of the socializing role that public associations play in civil life, at least in democratic contexts. The expression 'social capital' does not seem to have occurred for another sixty or seventy years, or at least not with a distinctive meaning of its own. The term itself, or equivalent renderings, appeared fleetingly between the 1950s and 1970s in several works making contributions to distinctive and growing literatures such as that on human capital and urban development (Seely et al. 1956; Jacobs 1961; Loury 1977), while some of its conceptual components were struggling to emerge in works on social networks (Granovetter 1973 and 1985). This is not surprising, since it is in the interception between these fields of study—education and human capital, neighbourhood and network studies—that the idea of social capital started acquiring its distinctiveness. The first systematic treatments of the concept were offered independently by two sociologists, James Coleman (1987, 1988), and Pierre Bourdieu (1980, 1986), both of whom, like Hanifan, were particularly interested in the field of education, and who seem to have arrived at a theoretical definition of social capital as a way of systematizing the effects of social relations, which they observed in their applied research.

Although they were both inspired by the effect of social environment and social connections on educational performance, Bourdieu and Coleman elaborated different theories of social capital, with different purposes in mind. Coleman's main intention was to provide a framework for his intuition that the social relations characterizing the social structure within which individuals act are also a 'resource' for the individuals (1990: 302). At the same time, Coleman was convinced that the analysis of the formation of social capital provided a middle way between a rational choice perspective, which conceives social action as the result of purposive and axiomatically self-interested individuals, and a social-norm perspective, which explains social behaviour as dependent on the exogenous constraints imposed by norms (1987: 133). For Coleman, social capital was, therefore, a way to reconcile individual action and social structure, normative-driven and self-interested behaviour in social analysis.

Bourdieu also conceived social capital as the 'resources' that come from belonging to a group; but his interest in it originated from his attempt to sketch a general theory of social reproduction (1986: 241). In his view, such a theory should be attentive to both the material and the symbolic resources that individuals and groups use to reproduce both the conditions in which they live and the relative relationships of power characterizing society. Economic, cultural, and social capital are the three main ways in which resources can be accumulated, according to Bourdieu, in order to give a head start to individuals in society (1986: 243). Crucially, but in different ways, they all depend on the ability of families, groups, and classes to transfer resources across generations. The way in which this transference happens is socially and historically determined, and so is the way in which the symbolic qualities of cultural and social capital can be converted into the more material qualities of economic capital. Such a conversion is ultimately what Bourdieu considers as the basis of social reproduction and successful power transference (1986: 252–5).

Coleman's and Bourdieu's theories represented the coming to maturity of the concept of social capital, but neither of them established it firmly in the academic and public discourse. It is generally recognized that this was the feat of Robert Putnam and of his two path-breaking research projects, one on the causes of the differential performances of democratic institutions across Italian regions (1993), and the other on the ebbs and flows of associational life in the USA (2000). The former established the academic credentials of the idea of social capital as a way of predicting political (but implicitly also economic) performance; the latter put social capital in the political agenda as an important component of general well-being and policy intervention. Putnam's success was the effect of intellectual entrepreneurship and of a theoretically astute way of applying the idea of social capital to the analysis of political phenomena. In his earlier work on *Making Democracy Work*, Putnam adapted Coleman's understanding of social capital to his own purposes, by superimposing it onto a more cultural interpretation of it, as the embodiment of a spirit of *civic-ness*. By doing so, he was able to harness it firmly to a number of powerful normative and analytic traditions of political interpretation, such as Tocqueville's analysis of American democracy, classical civic republicanism, the 1960s studies of 'civic culture', and the emergent literature on communitarianism. Putnam's imaginative use of Coleman's understanding of social capital allowed him to correct the bias towards virtue that these traditions displayed in their interpretation of what made societies both efficient and cohesive. By the use of the concept of social capital, as the more indirect, and often unintended way in which civic virtue was both produced and sustained, Putnam was able to offer a more subtle interpretation of how societies solve their collective action problems without recourse to unrealistic assumptions about either individual motivation or normative compliance.

As we have already hinted at, and as many of the chapters in this Handbook illustrate, the success of Putnam's work can be partly explained by the fertile ground that the idea of social capital found in a number of research fields. More specifically, social capital's rapid diffusion is probably due to both the kind of substantive issues it raised and the methodological approaches it favoured. In Putnam's work in particular, social capital offered a 'grand theory' through which to interpret the causal relationship between different macro-aspects of society. At the same time, the idea of social capital, when conceptualized as the resources provided by one's involvement in a network of relationships, was a way of identifying a series of micro-mechanisms through which to analyse the functioning of society and to establish more precise causal connections. Although often criticized as the cause for some confusion, the way in which social capital is used at both the macro- and micro-levels is one of the reasons why it has proved so attractive. This also applies to the way in which the concept of social capital cuts across a number of important dichotomies in social research, such as that between individual and collective action, self-interest and concern for others, culture and structure, economy and society, and community and society (in the sense of *Gemeinschaft* and *Gesellschaft*).

One other reason for social capital's success lies in its applicability to a variety of research and disciplinary fields. Even though its original application was in the area of education, while its theorization started in sociology, social capital has proved extremely malleable as a concept, and its effects have been identified in the three spheres of politics, economic activity, and social welfare. In politics its effects have been in encouraging political participation and improving institutional performance; in economic activity the effects have been in favouring development, cooperation between economic agents, and more generally in reducing transaction costs; whilst in social welfare the effects have been in facilitating social cohesiveness, community support, and life satisfaction. In view of the wide range of effects that social capital is alleged to have, it is not surprising that the concept has been used in an increasing number of disciplinary fields such as political science, economics, sociology, health science, and management; and in many of their sub-fields. In many of these disciplines and fields of study, social capital benefited from the fact that it shared a number of similarities with already established concepts and ideas. This is particularly true of ideas such as community and civil society, networks and social ties, trust and social inclusion, embeddedness and industrial districts. An added characteristic of some of these concepts, as of social capital, is that they can be used both analytically and normatively, something which occasionally makes their application ambiguous, but which contributes to their attractiveness.

There are two other important elements that explain the extraordinary success and rapid diffusion of social capital as an instrument for social research. These have to do with the impact of social capital on empirical research and practical action. They deserve careful consideration, and we shall take them in turn. The first concerns the way in which social capital has been conceived as something that is amenable to measurement. Putnam's pioneering work was in this respect crucial. The second is the way in which the 'causal' role attributed to social capital has made it an object for both policy design and policy making.

At first sight, it would seem unlikely for a concept with such wide usage and with so many meanings to be used successfully in empirical research. Yet empirical research has profited from both its conceptual openness and flexibility. Social capital can be considered 'a genotype with many phenotype applications' (Adam and Rončević 2003: 158). Rather surprisingly, the diversity of indicators and measures used for it is not as large as one might expect from the diffusion of the concept and its general character. The number of 'phenotype applications' in empirical research appears to be restricted. Although broad and general in the way in which it is conceived, social capital can be operationalized in a limited number of ways, thus favouring, exchanges, collaboration, and debates across disciplines in ways that are often unusual.

Seminal empirical studies on social capital mainly rely on survey and polling with straightforward questions to measure network involvement, trust, and norms. More recently, empirical research has become increasingly diverse. New instruments have been developed and new approaches are being tried which are mainly concerned with attempts to overcome the limitations of conventional surveys by developing experiments, observations, and analyses of documents. Furthermore, mixed-method projects have been developed and multi-level models have become increasingly popular. The question of whether social capital should be measured as a single construct or by using different kinds of measurements, depending on the aspect of social capital one wishes to measure remains unanswered.

This combination of an open and broad conceptualization with a wide variety of operationalizations seems to have made it possible for social capital to be used in many areas of empirical researchers and to be applied to very different topics and questions. It is also remarkable that the rapid expansion of empirical studies on social capital, instead of resulting in the fragmentation of the field of research, has brought together social scientists working in different areas and disciplines. The different ways in which the concept has been operationalized, and the animated debates to which it has been subjected, are also testimony of the vitality and relevance of social research when this addresses basic questions of human cooperation and social development.

The other reason for the public impact of social capital discourse is its application in policy making. The attractiveness of social capital for policy making lies both in the generally positive connotation that is often attributed to social capital's presence in society, and in its causal role in the production of social and individual goods. However, the relationship between social capital and policy making is somewhat more complicated, as the final chapter of this volume makes clear. In general, there are two ways in which social capital relates to policy. The first sees social capital as an instrument in reaching certain economic or social aims. The problem is to design and use policies that exploit existing social capital effectively. Seen in economic terms, social capital is an input of the production function, and the sole criterion of its utility is its efficiency, its capacity to enhance total factor productivity. This may mean that forms of social capital which are conventionally considered desirable may prove inefficient in strictly economic terms, and have to be assessed as such. It also means that it is reasonable to invest in social capital to improve or to increase its endowment, pursuing exactly the same ends as investing in production techniques. Furthermore, policies can be designed to increase the effectiveness of social capital indirectly, by acting on those elements of the social and institutional context which affect the productivity of a given endowment of social capital. A case in point is the strengthening of intermediate institutions, which enhances social capital productivity. In some cases, finally, policy may also be developed in order to destroy social capital, when this is seen as hostile to either economic development or to other social goods.

The second way in which social capital is related to policy is when social capital production is the very objective of the policy. In this case, intervention to strengthen social capital is no longer instrumental. The positive aspects of the concept of social capital need to be identified and feature as policy objectives themselves. Individual and generalized trust, the adhesion to value systems based on social justice and cooperation, social cohesion, and participation in democratic life are all pursued for their intrinsic value, in that they are presumed to better both individuals and society as a whole. Evaluation criteria can be derived from quality of life indices relating to citizens' perception of various aspects of life.

The distinction in analysing social capital as an input for reaching other objectives and social capital as a policy objective in itself is, however, more theoretical than practical. In real life policy, social capital is often both a means and an end. Policy may have its own ends, but the procedures for reaching these also help the creation of social capital as a desirable side-effect. This is why the policy planning process is so important. The degree of inclusion of actors, the quality of their participation, their decision-making power, the opportunity to argue their case in public, and the institutional construction of their intervention, all take on an intrinsic value quite apart from their efficiency in reaching policy objectives. In this light, there is no clear distinction between ends and means. The means for achieving an end are not indifferent and they cannot be evaluated only for their efficiency. Rather, policy has a dual rationale, in both procedure and substance.

This combination of instrumental and intrinsic value is an enriching aspect of social capital, but also a source of ambiguity. A policy pursuing two objectives inevitably meets with problems of compatibility. It is not necessarily true that pursuing the first objective, the creation of social capital, is functional to pursuing the second, the achievement of economic or other specific social ends. Trade-off between social capital and other individual or collective goods cannot be excluded. It is not necessarily true that the procedural rationale of a policy is always, and in any circumstances, complementary to its substantial rationale. Social capital policies run the risk of being self-referential if their procedures have their own normative basis. Since the procedures for carrying them out qualify them automatically as good, whether the other objectives are met or not, clear and unequivocal criteria to evaluate their effectiveness do not exist.

The self-referentiality of policies that take social capital to be an intrinsic good brings us to the final element of social capital's success. This is also of a self-referential nature, insofar as success often begets success. Fashion and imitation play their part in the academic industry too. The success of social capital has created a market for its study and its application, as well as for its exegesis and its criticism. There are obvious drawbacks in the overproduction of works on social capital, but in this respect social capital is no exception. One would expect the academic interest in studies of social capital to recede at some stage, and a more normal pattern of ebbs and flows to set in. This may indeed have already happened. As mentioned at the beginning, the real issue is about the durability of the idea of social capital, since some still doubt whether this is a really new and distinctive concept in the social sciences, while others challenge its conceptual integrity.

The scope of this Handbook is to offer a state-of-the-art view of social capital, so as to help the reader make his or her own assessment of the utility and analytic distinctiveness of the idea of social capital. We have divided the Handbook into four parts. The first offers a conceptual overview, by exploring some of its meanings and some of the approaches characterizing the study of social capital. Part I also comprises a number of chapters that address particular conceptual problems, such as the measurement of social capital, the nature of 'bad' social capital, and the relationship between social capital and trust. The other three parts of the Handbook concentrate on the application of the concept of social capital to three main area of research: politics, economics, and society. Each of these parts comprises a mixture of theoretical and empirical contributions, while it tries to map the main themes on which the social capital literature has made a contribution to that particular area of study. Each of the four Parts is introduced by a short essay by one of the editors, which outlines the issues emerging from the chapters comprising the relevant Part, and purports to offer a general guide to the way in which ideas of social capital have been put to use in politics, economics, and in the social domain. We shall therefore defer to these introductions for a more detailed discussion of the questions discussed by the chapters comprising this Handbook.

One idea, however, that has guided us in the preparation of this volume is that it would be wrong to judge the validity of social capital simply on the basis of whether it is possible to arrive at a generally accepted conceptual definition of it. This is hardly the case for any of the key concepts in the social sciences. Naturally, conceptual precision is important, but, more than a single concept, one often finds a cluster of 'conceptions', each of which offers a different interpretation of the core meanings of the generic 'concept' to which it refers. The fact that there are very different conceptions of 'trust', of the 'state', of 'interest', of 'justice', of 'society', of 'structure', etc., does not invalidate the fact that we can use each of these concepts in scientific discourse with some profit. The durability of social capital in the vocabulary of the social sciences does not, therefore, depend on people agreeing on a single and univocal definition, but in the way in which different researchers can profitably make use of it as an intellectual tool, giving us a grip on the world we inhabit. In spite of the many imperfections, ambiguities, and contradictions that one finds in the literature on social capital, for the last twenty years this has offered new insights on old issues, and has encouraged the development of new research programmes and new research agendas. On this evidence, there is reason to believe that it may do so for some time to come.

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PART I

CONCEPTUAL ISSUES

Introduction: Conceptual Issues in Social Capital Theory

Dario Castiglione

One of the most controversial question in the current social capital literature is about the meaning and conceptual distinctiveness of the very idea of social capital. There are a variety of definitions in circulation, and there is scepticism on the part of some on whether social capital is a viable theoretical concept. The purpose of Part I of this Handbook is to explore some of the conceptual issues involved in the study of social capital. Because of its contested nature, however, we make no attempt to provide a common definition of social capital; nor is it possible here to offer a complete survey of the meanings circulating in the literature. More modestly, Part I offers a number of theoretical approaches through which to explore the meaning(s) of social capital, while this introduction aims to clarify what the main issues of contention are.

1. A Contested Concept?

It is common to consider those concepts that give rise to some dispute over their definition as *contested*. On the face of it, this is no more than a tautology. Such a matter-of-fact observation, however, is often implicitly conflated (cf. Waldron 1994) with the more specific connotation that the expression acquires when deployed in the sense made popular by Gallie (1956) in his discussion of 'essentially contested concepts'. Gallie applied this idea to a particular group of concepts that are not merely subject to dispute and controversy, but which present *essential* features that make them the proper objects of contestation (cf. also Connolly 1974; and Gray 1983). Gallie himself listed seven such features, the most important of them being that the idea of essential contestability applies to *evaluative* concepts. Without entering into the more philosophical discussion of whether Gallie's idea of 'essential contestability' is defensible, it appears that social capital is not an 'essentially contested' concept in Gallie's sense, since its main purport is analytic rather than evaluative, even though, as we shall see, it carries normative implications.

Yet, there is something more to the disputes about social capital than the fact that people disagree about it. One other way of framing conceptual disagreement is to distinguish between a core meaning of the 'concept', which allows for the fact that people may not be talking at cross-purposes, and a variety of 'conceptions', reflecting the different ways in which the same concept can be either understood or deployed (cf. Hart 1961; Lukes 1974; Dworkin 1978). Such distinction generally applies to normative concepts, such as liberty, justice, and equality, of which we may have a shared intuitive (though socially and culturally acquired) understanding, but which turn out to be more controversial as we try theorize them fully, or as we apply them across a broad spectrum of cases. The same distinction, however, also applies to complex and abstract concepts such as the state, power, and ideology, whose main purpose is to describe social facts or entities, and which are amenable to different levels of interpretation and different theorizations. Social capital would seem to fall under the latter category, so that disagreements about its definition appear to be neither more unusual nor more marked than those concerning other key concepts in the social sciences. There are, however, a number of characteristics of the idea of social capital that make current disagreements about it distinctive. A brief analysis of the nature and possible causes of such disagreements may help us to clarify some of the conceptual issues involved in social capital research.

2. Disputes about Social Capital

One obvious element in the recent disputes over the conceptual distinctiveness of social capital is that this is a fairly recent concept, so that it may take time for it to become fully established. This seems trivial, but its implications are less so. New concepts do not get established by the mere passing of time and in a ready-made fashion; more often they tend to emerge and get accepted as the product of 'internal' conceptual struggle, refinement, and adaptation. Different definitions, or the instability of the concept, should not necessarily be regarded as signs of incoherence, but as one of the ways in which innovative concepts are incorporated into social and scientific discourse. Besides, new concepts rarely define an entirely new field of research. They usually tend to displace previous concepts and approaches by suggesting new perspectives or different ways of cutting up, capturing, and theorizing social phenomena. The fact that social capital may reproduce older categories and intuitions of social theory is not, in itself, an indictment of either its originality or its usefulness. None of this makes conceptual disputes less important to settle, but put them in a different perspective, as the inevitable ingredients of the way in which conceptual innovation takes place: through struggles for, and displacement of, meaning; and through the redefinition of fields of research.

The second element characterizing conceptual disputes about social capital is whether, in its more descriptive sense, social capital refers to something concrete, instead of operating as a general abstraction. The idea, for instance, that social relations are resources for the individual, and that as such they are social capital, is ambiguous. Do we consider relations in general to be resources (i.e. social capital), regardless of whether the individual makes use of them? Or do we consider them to be social capital only to the extent that the individual put them to profit? Connected with the question of the relationship between abstraction and concreteness in the analysis of social capital there is the issue of the expansive use that has been made of this idea, so that, in principle, any kind of resource that originates from social interaction can be said to be social capital. Given that our actions and behaviour take place in a saturated social environment, it is sometime difficult to imagine anything that is not affected by the way in which we either relate or depend on others. This issue may also give rise to more specific disputes on whether we consider family or more formal and hierarchical relations as productive of social capital, or whether we limit this function to relations in which we enter voluntarily.

A third element that contributes to the current disputes is the role that social capital has acquired in social research as a 'causal link'. Part of the attraction that social capital exercises in many fields of social research is that it is used to explain a number of social outcomes as a direct causal factor, or as one of the inputs that are required in order to achieve certain results. This has given rise to demands for stricter and more precise definitional standards. On the one hand, social capital cannot be solely treated as a black-box macro-mechanism producing social goods. More specific micro-mechanisms need to be identified in order to support the causal chain that goes from the dynamics of social relations to social cohesion or to other social goods. On the other hand, proofs of the causal link require a more stringent operationalization of social capital, so that specific ways of measuring it can be found in order to demonstrate that social capital actually makes a difference for individuals and/or the collectivity. The operationalization and the measurement of social capital require a more precise understanding of the way in which social capital operates as either a private or a public good. Furthermore, there is the added complication that many discussions of social capital tend to run together causes and effects of social cohesion, so that their definition of social capital appears at time to be either circular or difficult to pin down with precision.

A fourth element of conceptual contention derives from the fact that, although it first originated as an analytic concept, social capital has strong normative connotations insofar as it is seen both as contributing to the production of private and public goods, and as a source of intrinsic satisfaction. Moreover, this poses the question of whether there is a 'dark side' to social capital, and what are the conceptual consequences of treating social capital as having mixed effects? Such a question is not unconnected to the way in which social capital relates to a family of concepts, such as trust, civil society, and associations, which, like it, have both descriptive and normative characteristics, and which in different ways point to the benefits of social cooperation and social connectedness, but whose effects cannot be seen as exclusively positive.

Finally, there is the specific element of conceptual contestation related to the question of whether social capital can be called *capital* at all. Indeed, even some proponents of social capital have conceded that their use is more metaphorical than conceptually rigorous. This finds implicit confirmation in the way in which authors such as Putnam have at times used social capital as synonymous with either civicness (1993) or community (2000). There is a sizeable current of opinion amongst economists (cf. Arrow 2000; and Solow 2000) that—although convinced by many of the substantive claims made by the social capital literature—rejects the idea that social capital can be put in the form of a capital theory. Social capital, they maintain, has none of the main conceptual and operational characteristics that make it possible to analyse it like economic capital. This question does not seem to be merely nominal, for what is here in contention is the kind of theory and conceptual instruments that are best suited to capture the intuition that social relations are 'resources', and the kind of analysis and repertoire of scientific languages that are most amenable to explore such 'resources'.

3. The Contributions to Part I

We have argued that disagreements over the definition of social capital are not in themselves a sign of either theoretical or conceptual weakness, since such disagreements are part and parcel of the way in which scientific discourse proceeds. Disputes of this kind occur for many of the key concepts in the social sciences that have a certain level of internal complexity, that operate at different levels of analysis and abstraction, and that to an extent are both theory and value laden. The problem, therefore, is not one of conceptual definition per se, but of conceptual clarity. As we have briefly outlined, many of the conceptual disputes are often related to either differences in approach or to specific problems raised by social capital theory and research. The contributions to Part I tend to pose the conceptual question in this more concrete way. The first three contributions (Chapters 1, 2, and 3) examine the concept(s) of social capital from different perspectives, elaborating a series of distinctions that are coherent with the approach the authors themselves take, and with the use they think social capital theory can be put to. The following three chapters (4, 5, and 6) explore the conceptual issue by engaging with specific problems in social capital theory; while the concluding chapter of Part I (Chapter 7) suggests that the strength of social capital lies in its research agenda rather than in its conceptual cogency.

In brief summary, we shall outline the topics raised in the chapters comprising Part I. Hartmut Esser (Chapter 1) suggests that there is a core meaning to social capital, and that, like economic capital, this is meant to capture a *stock* of resources. There are two aspects to this stock, one concerns its production and the other its use. Different types of capital present different characteristics in the way in which they are either produced or used, but, general speaking they align themselves along two dimensions, one indicating the level of autonomy or heteronomy in the production and use of capital, and the other its fungibility, whether more or less generalizable. According to Esser, what is distinctive about social capital, and what makes it more conceptually problematic than economic, or even other symbolic forms of capital, is the particular way in which social capital combines individual and social aspects of its production and control. Esser therefore distinguishes between *relational* social capital, which points to the resources that are available to the individual actor, and *system* social capital, which is a property of the social structure. His essay aims to clarify the scope and phenomenology of such a distinction, which in his view makes clear the different ways in which individuals can invest in social capital, thus paving the way for a more specific investigation of the mechanisms that produce the two types of social capital.

Nan Lin (Chapter 2), on his part, places social capital within a 'family' of capital theories. Indeed, he makes the important observation that 'capital' is both a *concept* and a *theory*, which is somewhat related to the distinction between 'concept' and 'conceptions' we referred to earlier in this introduction. In his chapter, Lin develops a network-based theory of social capital, starting from a conceptual definition of social capital as 'resources embedded in one's social networks, resources that can be accesses or mobilized *through ties in the networks*' (emphasis added). In his view, the network-based origins and core understanding of social capital is crucial not only to develop a coherent theory of social capital, but also to address a number of key issues raised by the concept of social capital in general, such as whether social capital consists in a capacity or in its actual use; how to measure social capital rigorously; how to distinguish social capital from social relations and networks; how social capital relates to different kinds of social ties or to different motivational structures for actions; and finally how a network-based theory of social capital addresses the problem of correspondence between micro- and macro-level analysis. In sum, Lin's view is that the network-based approach is both theoretically coherent and analytically productive.

T. H. Ahn and Elinor Ostrom (Chapter 3) develop yet another perspective for the study of social capital. They also agree that social capital *is* a form of capital, but while this may not make much sense from the viewpoint of traditional neoclassical economics, they think that a collective-action framework may be more appropriate in order to see what social capital is and how it works. In particular, they regard the emergence of the idea of social capital as part of second-generation theories of collective action, which have transformed rational choice and game theory by emphasizing the importance of reiterative interaction as a key to the understanding of the emergence and stability of social cooperation. The emphasis that social capital theory puts on networks and the construction of trust, norms, and institutions through individual interactions fits well with such a view of the basis for collective action. From such a perspective, Ahn and Ostrom regard social capital as comprising obligations, values, and relations created in the past—therefore the product of past *investments*—on which individuals can draw upon in planning their future actions, so to avoid and overcome social dilemmas. Ahn and Ostrom thus regard social capital in an expansive way, including the cultivation of trustworthiness as an attitudinal characteristic, and part of people's preferences rather than strategic behaviour. To the criticism that such a view risks confusing different mechanisms and processes, their answer is pragmatic: 'it depends.' In their view, social capital theory has a useful role as an umbrella theory, which brings together in a useful way empirical research and analytic insights that deal on how societies manage social dilemmas.

In his contribution on 'Trust as a Moral Value' (Chapter 4), Eric Uslaner further develops the discussion about trustworthiness already broached by Ahn and Ostrom. Although Uslaner argues his case in terms of generalized trust in opposition to trustworthiness, his take on trust has some important elements of convergence with Ahn's and Ostrom's position. Uslaner's main argument is that there are two broadly different kinds of trust, one of a more *strategic* kind, which operates on the basis of the actual or implied knowledge that the truster has of the trustworthiness of the trustee; another, of a more *moral* kind, which is the expression of a positive view of others' motivation and general goodwill. Such an open attitude towards others, the 'trust of strangers,' as Uslaner calls it, is an important component of trusting societies, societies which perform consistently better across a great many varieties of social, economic, and political indicators. As Uslaner remarks, moralistic trust is a 'risky gamble', but one that in his view promises greater returns, and one that is better able to explain how social capital works.

Mark Warren's object of investigation (Chapter 5) is about the consequences of social capital. He acknowledges that the optimistic bias of the early literature, which seemed to present the consequences of social capital as consistently good, has long been corrected, so that there is now a universal agreement that social capital can produce social 'bads' as well as social goods. Warren's contribution aims to treat this normative distinction in social capital in a more systematic way than has so far been done. His view is that the key insight lies in developing an analysis of the 'externalities' of social capital, and how these relate to both the sources and functions of social capital itself. The upshot of Warren's functional analysis of social capital is that the positive effects that social capital has on the member of a group (and the group itself) may easily have negative externalities for non-members or for other groups. The general effect of social capital therefore depends on a balance of positive and negative consequences, and how negative externalities can be offset. Warren's hunch is that the normative balance of social capital's effects can only be kept by the capacity of groups affected negatively to resists such externalities. In his view this is only possible through a 'more democratic distribution of powers', something that is essential in order to create a virtuous circle between democracy and social capital, while keeping the latter's effects positive, at least on balance.

The final two chapters of Part I move on to issues of measurability and intellectual contextualization. In doing this, they take a more sceptical and pragmatic view of the conceptual definition of social capital. Jan van Deth (Chapter 6) proposes a 'bottom-up' approach to issues of operationalization and measurability of social capital. Given the great variety of definitions available in the literature, he suggests that there is little point in trying to reach an agreement on a precise definition of the concept before operationalizing it for empirical research. A more practical way of proceeding is to try to identify some of the common features of these conceptualizations and use them as a basis for empirical research and measurement. Such studies, in their turn, can provide—and indeed, as van Deth suggests, have provided—useful information and insights on how to conceptualize social capital. Far from producing a fragmentation of the field of research, the proliferation of empirical studies and of methods of measurements through different proxies have kept the focus on social capital theory and research as useful instruments for 'the study of social life in complex societies'. This, in itself, is recommendation for getting on with both empirical and theoretical research on social capital rather than expecting a 'real' definition of social capital to emerge.

Dario Castiglione's concluding contribution to Part I (Chapter 7) extends van Deth's pragmatic approach to conceptual definition by suggesting that social capital's contribution to social research lies less in the provision of new and original tools for social analysis, and more with the fact that social capital research has revitalized several lines of interdisciplinary research in social theory. Castiglione identifies three particular research programmes, one concerned with 'sociality', which historically and more traditionally has been framed as the question of human motivation in social dealings; a second concerned with 'sociability', or the role and effect that associating in particular groups has on both individuals and society; and the third concerned with 'social embeddedness', and the way in which this affects the reproduction of society and of its power structures. Each of these topics has a long and distinguished tradition in the social sciences. The merit of social capital is to have partly redefined the way in which we look at them, and to have done so by bringing back together a series of very different intellectual discourses and disciplines. There is no guarantee that such a dialogue of disciplines may eventually coalesce in a single and coherent theory of social capital—but it is only through such periodic dialogues that social research may keep a circulation of ideas between ever more specialized sub-fields, and, at the same time, remain relevant to society at large.

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CHAPTER 1

THE TWO MEANINGS OF SOCIAL CAPITAL

HARTMUT ESSER

Few concepts have been as widely disseminated within, as well as beyond, the social sciences as the term 'social capital'. Social capital is now understood to encompass almost everything connected to social embeddedness: ranging from neighbourly help to the civil morality of a globalized world society. Despite undeniable progress in the theoretical specification, methodological implementation, and empirical application of this concept, the all-encompassing understanding of social capital remains basically unchanged (cf. for instance, the overviews by Haug 1997; Portes 1998; Sandefur and Laumann 1998; Flap 1999; Putnam 2000: 19 n.; van Deth 2003; Messner, Baumer, and Rosenfeld 2004; Lin, Cook, and Burt 2001; Lin 2001*b*). The following contribution proceeds from the assumption that inaccuracies in the use of the concept are generally the result of the presence of *two* theoretically distinct aspects of social embeddedness and of the control of resources over social relationships. First of all, though, the concept of social capital as a whole must be specified.

1. What is Social Capital?

Social capital is a special case of 'capital'. At a first approximation, capital can be understood as the stock of resources that an actor controls. Economic capital, as well as so-called human capital, are particularly conspicuous examples thereof. Capital can be acquired, for instance, either by means of investments or through an inheritance. In addition to economic and human capital, a number of other similar resources can be distinguished, including the so-called cultural (or symbolic) capital of having at one's disposal distinct features and skills; the institutional capital consisting of order-endowing rules; and political capital, which consists of having at one's disposal an effective representation of interests, such as through a political party. These various types of capital can be classified according to two dimensions: one indicating either the *autonomy* or *heteronomy* in the production and use of a certain type of capital, and the other pointing at either the *specificity* or *generalizability* of its use. The first dimension indicates that there are some types of capital whose features more closely resemble those of *private goods*, such as economic capital, human capital, and even cultural capital, whereas other types of capital are more representative of *collective goods*, such as institutional and political capital, the production and use of which do not lie within the power of a single individual. The second dimension concerns the range of uses of a type of capital. There are forms of capital, such as a financial fortune in a fungible currency, whose use is highly *generalizable*, as opposed to other forms whose value is bound to the existence of a *specific* social environment, such as a special language or a cultural custom. *Social* capital is understood then to mean all those resources that an actor can mobilize and/or profit from because of his embeddedness in a *network* of *relations* with other actors. Examples of social capital include an individual's capacity to mobilize help or a collective's ability to generate and utilize a climate of trust. The particularity of social capital lies in the distinct *combination* of *individual* and *social* aspects in the control and use of resources. As with capital in general, there can be *individual* investments in social relationships and the benefits thus able to be mobilized can be used individually. However contrary to economic capital, *neither* the success *nor* the use of social capital can be controlled by individual actors. This indicates a central distinction between the two features of social capital. On the one hand, social capital refers to the resources of an *individual* actor, e.g.

those available to him via distant acquaintances or close friends. On the other hand, it also refers to the performance of the *entire* network in its structure for *all* actors included. Both aspects can interact empirically even though they consist of two theoretically very distinct processes. For example the fast circulation of information, by which the collective facilitates norm adherence, such as helping a friend in need, even without the formal institution of social control.

The distinction between more 'individual' as opposed to more 'collective' forms of social capital is mentioned, though mostly implicitly, in many articles about social capital (see Flap 1999: 10 n., 14 n.; Lin 2001*b*: 21 n.; Lin 2001*a*: 7 n.). The classical definitions of the term already incorporate this dual nature. Pierre Bourdieu (1986: 248, emphasis added), for example, regards social capital as the sum of 'the actual or potential resources that are linked to *possession* of a durable relationship of mutual acquaintance and recognition'. It is that which an actor individually possesses, beyond his social relationships, and in which he can individually invest with an eye towards reciprocal profits. Robert Putnam (1993, 1995, 2000), on the other hand, in his contributions on the conditions of functioning democracies, equates social capital more to the *collective* distribution and bindingness of norms and the bridging of otherwise separated collectivities, which consequently lower transaction costs and thus benefit *everyone* individually, including those who did not invest in it. In his view, 'community' is the 'conceptual cousin' of social capital (Putnam 2000: 21) and 'can thus be simultaneously a "private good" and a "public good" ' (Putnam 2000: 20). This mixture of the individual and the collective aspects of social capital is expressed most clearly by the definition proposed by James S. Coleman. According to Coleman, social capital is 'not a single entity, but a variety of different entities having *two* characteristics in common. They all consist of some aspect of *social structure* and they facilitate certain actions of *individuals* who are within the structure' (Coleman 1990: 302, emphasis added). The conceptual difficulty with social capital, however, is how to deal with these two aspects theoretically.

The distinction between the 'individual' and the 'collective' aspects of social capital becomes clearer when examining certain resources and benefits provided by relations and networks. At least six typical forms of social resources and benefits might be distinguished: first, the access to information and a certain kind of social life through relationships; second, the readiness of actors to become trustfully involved in risky ventures with other actors; third, the production of support, help, and solidarity; fourth, the availability of social control and a certain level of attention to the fate and action of other members of an entire network (or a system of social relations), like in the family, among relatives or in the neighbourhood; fifth, a climate of trust in the network, like among colleagues of a research institute; and sixth, the validity of norms, values, and morality within a group, organization, or society.

The first three kinds of resources and benefits differ from the latter three in one respect. The access to information and to possible social gatherings, the trustful disposition to help others with risky ventures, and the readiness to help and to display solidarity strongly depend on an actor's own *individual* and *intentional* effort and, given that acquaintances are very well known to him and that friends are very good friends, are almost like *private* goods that can be used when they are needed. In contrast, the existence of social control and attention, a climate of cooperation and a 'system' trust, as well as the validity of norms, values, and morality are *collective* phenomena and represent *collective* goods. Their character is much more emergent than that of the other resources and benefits and especially these *cannot* be achieved by individual intentional efforts alone.

Against this background the social capital of an actor can be understood in *two* very different ways (see especially Esser 2000*b*: chapter 8.6). First, social capital can be seen as the valued number of resources an *actor* can employ and use through direct or indirect personal *relations* with other actors who control those resources and in which the actor is intentionally investing and which should eventually pay off. We thus denote this form of social capital as *relational capital*. Second, social capital can also be considered an emergent characteristic of an entire network (or of a complete collective system of actors) such as functioning social control, system trust, and a comprehensive system morality, between individuals or within a group, organization, community, region, or society. As these are characteristics of the entire relation *system*, which goes beyond the relationships of single actors, and since they include aspects of a 'collective' attitude towards the social system as a whole, they cannot be created by individuals. We refer to this form of social capital as *system capital*. The distinction between relational and system capital resembles certain measures used to describe the structures of *actors*' relations within a network (like centrality or prestige) on the one hand, and the structure of entire *networks* on the other (like centralization and hierarchy). It is one that also has been mentioned repeatedly, albeit usually merely incidentally, in the various approaches to describing different dimensions of social capital (Flap 1999: 14 n.; Lin 2001*a*: 9 n.).

The distinction between relational and system capital focuses upon two *theoretically* very distinct aspects of social capital that are found in all types of social capital. Each type of relational capital also contains some of the characteristics of a collective good, if only because ‘relations’ can neither be constructed nor maintained autonomously, and each type of system capital also incorporates the interactions between individual actors and their actions. At the same time, social capital can be categorized with other types of capital against the background of the two dimensions defined above. Due to its nature as a collective good, it is (comparatively) more heteronomous than other types of capital, especially in the case of system capital. Furthermore, it is always bound to (comparatively) specific social environments, since *personal* relationships are always at the core of each type of social capital.

2. Relational Capital

What is Relational Capital?

Relational social capital can generally be regarded as an actor’s ‘personal’ resource, whose value depends on earlier investments in it. An actor’s total endowment of relational social capital equals the sum of all the resources and benefits on which he can draw as a result of direct or indirect relations with other individual actors. In the simplest case, for an actor ‘ego’ these are the resources R_A controlled by actor A with whom *ego* maintains a relationship and who, in addition, is willing to pass the control over his resource R to ego. If actor A also maintains relations with other actors, e.g. B and C, *ego* additionally has indirect access to their resources R_B and R_C. This results in an initially simple determination of the extent of the relational capital at the disposal of an (individual) actor. The greater the number and the more valuable the resources of the actors connected with *ego* are and the less time and investment it takes to obtain them, the higher ego’s social capital is. The central problems of explaining differences in the control of relational capital are thus the questions of when and why actors are more or less likely to strive to attain this type of capital and how this relates to certain socially structured ancillary conditions.

Relational capital can be understood as a special form of ‘income’, and within certain limits individual investments can be made in relational capital.

In this respect relational capital is similar to other types of autonomous capital, such as economic or human capital. Thus, all possibilities of (economic) investment theory can be applied to the acquisition of relational capital, including the question as to when it is (not) particularly profitable to invest in social relations as opposed to other types of investments. Gary S. Becker (1974) suggests a useful model to explain variations in the investment in relational capital that can serve as a general tool to investigate the emergence of differences in the endowment of this kind of social capital as 'social income'. Becker starts from the idea of utility production via commodities Z. Besides certain market goods X, the *social environment* of an actor, his relations, also contributes to the utility production via the production of commodities Z. R indicates the number of relationships of actor i. The basic production function of the utility of person i (if we ignore, for the moment, time and other circumstances) is then:

$$U_i = Z(X, R).$$

The number of relations R is composed of two parts. First is the *basic equipment* of an actor i with relations D_i. These are relations that the actor simply has, without having to invest in them, such as the relations a rich man's son has and on which the son can draw without ever having invested in them himself. Second is the quantity h of relations built by the actor *himself* by means of his own investments. Then, for R, as the 'social environment', which is the term used by Becker, the following applies:

$$R = D_i + h.$$

If the *monetary* income of actor i is I and if the price p_x indicates the market price for goods X and p_r the price for creating each unit of social environment R, then the following budget restriction applies:

$$p_x \cdot x + p_r \cdot h = I.$$

Because the equation $R = D_i + h$ and thus $h = R - D_i$ holds, the budget restriction of person i can be written as:

$$p_x \cdot x + p_r(R - D_i) = I_i$$

$$p_x \cdot x + p_r \cdot R - p_r \cdot D_i = I_i.$$

And it follows that:

$$p_x \cdot x + p_r \cdot R = I_i + p_r \cdot D_{i.} = S_i$$

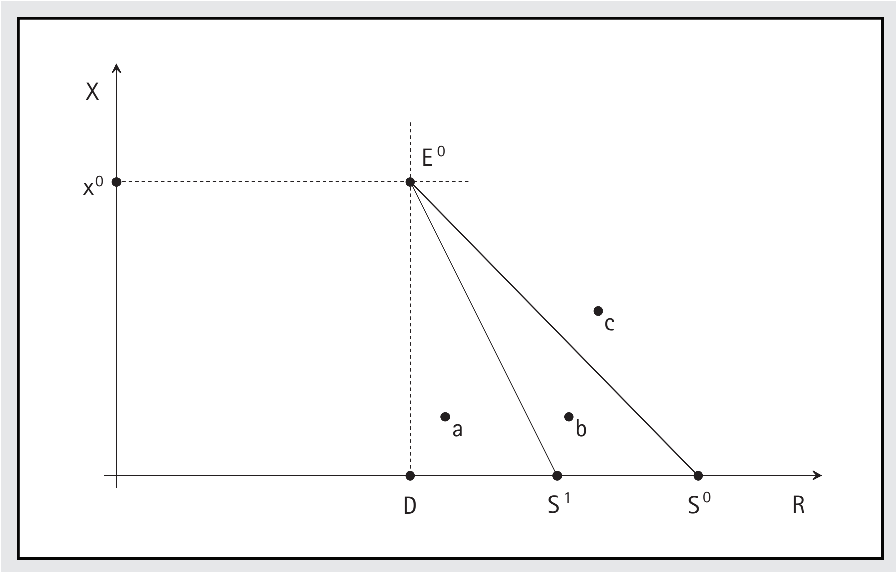

Fig. 1.1. The social income and the changes in shadow prices for the investment in social capital

S_i refers to the *total* income of actor i. It includes his monetary income I, as well as the 'income' $p_r D_i$ yielded by his basic equipment with social relations, converted into monetary income via the prices p_r for creating the respective relations. This is the *social income* of actor i. The left side of the equation $p_x x + p_r R$ describes then how the entire income of actor i is 'spent'. The amount of x market goods is acquired and the number of R relations is maintained, while R already includes the cost-free basic equipment D. In a diagram, we can summarize the constellation like this (Figure 1.1):

This representation is a bit uncommon yet can be easily understood. We have also simplified it compared to the original contribution by Gary S. Becker. The vertical axis represents the number of market goods X, while the horizontal axis represents the total network of relations R of an actor. Point D indicates the actor's basic equipment with relations. At a given level of income I, x_0 is the maximum number of market goods an individual can acquire. The intersection E_0 indicates then the maximum number of market goods that can be acquired with an income of I and *given* basic equipment with relations of D. Although the diagram contains no indifference curves, it is easy to see what social 'capital' means. The endowment of an actor and hence his entire opportunities move farther east of a higher utility the greater D is, independent of his monetary income and the prices for market goods.

The actor might decide that it is better to give up some of the market goods that could be acquired with an income of I in order to spend this share of income to extend his network of social relations. For a given price of p_r for each relation with an income of I, the relations equipment, starting from the basic equipment D, can be increased for a price of h up to the maximal value S_0, i.e. the entire income from I and $p_r D$. Note that this always means giving up an equivalent number of market goods at the price of p_x. The straight line E_0-S_0 would then be the budget line of all combinations of market goods and relations beyond the basic equipment that can be realized with an income of I. Now we encounter the following problem. Which combination of market goods and relations is the right one? We know, even without any indifference curve and without searching for the respective optima, that it *can* only be a combination from *within* the budget restriction that is within triangle E_0-D-S_0, for example, the combinations a and b, but *not* combination c. We know also that *each* change in the prices of market goods or relations and *each* change in income or basic equipment will modify these opportunities.

So far, we have ignored *time* as a relevant factor in the production and maintenance of social relations and in the investment in relational capital, but, as the saying goes, time is money in the sense that the price equals the amount of money one could have earned by spending the same amount of time working. In short, each period not spent earning money has its shadow price. This is extremely important, especially with respect to the investment in relations with other persons. To create and foster relations is *very* time consuming, although not to the same extent for all relations. Each change in the shadow prices of the time spent investing in relations thus changes, through this mechanism, the price p_r for creating a network of relations. When the shadow price of time increases because paid labour is more profitable, this has implications for the investment in relations and the availability of social capital in general. This can also easily be demonstrated in Figure 1.1. In the beginning, time costs are low, and the maintenance of relations is possible to a number displayed around the position of point b, given the budget restriction E_0-S_0. Then, we assume that time costs grow as, for instance, chances for profitable jobs grow. This increases the shadow prices for 'working on relations'. Due to increasing prices for additional relations h, the budget line moves towards the left on axis R and the maximum number of possible relations drops to point S_1. Consequently, the combination b of market goods and relations can no longer be maintained; thus, the number of relations *must* be reduced.

As material wealth grows, and as there are increasing chances (and need) for profitable paid labour and for the acquisition of capital other than social capital, relations with other persons become comparatively expensive. This is exactly because the price of time is *increasing* and relations are usually time consuming. For example, the professor's wife, who has also begun working in the meantime, suddenly cancels teatime with the rector's wife not without any reason, whereas before she began working she was enthusiastic about joining these sorts of occasions, as she may not have known how else to spend the day. Against this background there is also more to the following cartoon caption than first meets the eye: 'I'm rather fortunate. I have no parents, so Medicare is no problem, and I have no children, so the environment is no problem'.

Three Kinds of Relational Capital

The concept of social income, an inherited basic equipment, and the concept of the investment therein taking into account the shadow prices of such social investments over the necessary period, constitute the theoretical foundation for the explanation of *relational* social capital in general. However, since the availability of the resources that others control is not given simply by the existence of the others, investments far exceed the deployment of material means of exchange and not all resources and not all types of relations are alike. Thus, we can and must distinguish between different forms of relational social capital. Three kinds are particularly important, which we will denote as positional capital, trust capital, and obligation capital.

Positional Capital

It is possible to invest in relational capital, and we saw that such a decision might be based on a person's explicit decision to 'optimize'. Optimization is also important with regard to which relationships to invest in, since each person can maintain only a restricted number of them. If, for instance, someone is looking for access to a vast amount of information or for many different forms of social life, but spends his time with just *one* network of close friends, he is wasting his time, at least with regard to his goal. Instead, it would be more important to distribute the possible relationships in such a way that each relationship may provide access to *different* sorts of information or to *different* kinds of sociability.

This is the basic idea underlying the concept of *structural holes* developed by Ronald S. Burt (1992), who further developed Mark Granovetter's (1973) ideas concerning the importance of so-called *weak ties*. A structural hole is a 'hole' between *different* networks. Since actors within each network are closely associated and only have access to similar sorts of persons, multiple contacts within the same network are *redundant.* If I know *one* of the actors, I know almost *everything* about everyone else. Thus, if I were interested in a large variety of information or a varied social life, it would be important to spread my contacts over as many non-redundant relations as possible. This implies maintaining a relation with just *one* contact person in each network, whose benefits are non-redundant to me, while waiving other strong ties within the network.

The term *positional capital*, therefore, relates to an actor's relational social capital built on strategic occupation of structural holes. Its name stems from the fact that it can be maintained (at low cost) and enlarged solely by means of strategic positioning within a given network structure. Positional capital increases with the number of non-redundant contacts and thereby with the values of the resources and benefits that can be mobilized through these contacts. Assume, for example, that an actor maintains contact with four networks separated from others by structural holes. The actor's four contact persons each have close contact with the other four persons within their network. Full participation in the social network would require the actor to maintain sixteen instead of four relationships. Of these sixteen, however, only four are non-redundant, meaning the actor gains the same amount of information and variety in his social life from the four of them (exactly *one* contact *per network*), but at considerably less cost. This, of course, applies just for the actor's given purpose. If, however, he later found that other members of the network could provide further access to information and social gatherings, and were thus non-redundant, he could invest in those formerly redundant relationships. Figure 1.2 sketches these two situations (following Burt 1992: 17, 20).

Thus, it is important to close the structural holes between different, non-connected networks by means of only *one* contact. Equally important in a strategic sense is to maintain contact with the one who has the most clout with the greatest number of persons within his network and who is well informed about things happening in his environment. We refer to such a tie as a *primary* contact in contrast to the so-called *indirect*, secondary contacts to persons who are also part of the network but who are much less important

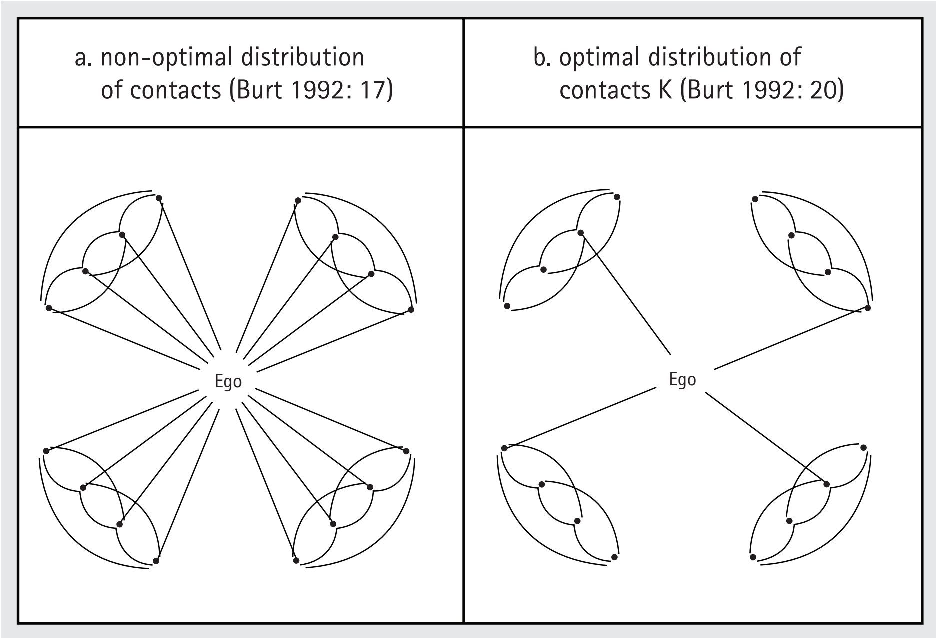

Fig. 1.2. Optimizing non-redudant ties

and informed and therefore much less useful. Ronald S. Burt describes this strategy of optimal relation management in the following way:

> … select one contact in each cluster to be a primary link to the cluster. Concentrate on maintaining the primary contact, and allow direct relationships with others in the cluster to weaken into indirect relations through the primary contact. … Repeating this operation for each cluster in the network recovers effort that would otherwise be spent maintaining redundant contacts. By reinvesting that saved time and effort in developing primary contacts to new clusters, the network expands to include an exponentially larger number of contacts while expanding contact diversity.
>
> (Burt 1992: 21)

This means that if, as in the above-mentioned example, there are still redundant contacts to secondary persons, it is not worth keeping them. They do not pay off.

This is a clever decision, but is it also a good one? The question immediately arises: why should primary contacts be successful if the relevant actor within the network is treated in such an instrumental and strategic way while his good friends are downgraded to merely 'secondary' accessories? One answer to the question of why the contact person would agree to being used is to be found in the positional capital of the actor himself. By placing himself exactly in the most strategic position among different networks that would not otherwise come into contact, the actor holds information for respective contact persons in other networks and is therefore an important asset to other primary contacts, providing access to new information. In a way, a contact person is exchanging her own information for the information that *ego* provides from the other networks. This is exactly why it is so important not to fill contacts with redundant relations. The *different* and otherwise inaccessible information provided by the actor who intends to fill the structural hole, together with his contacts, is the most important motivation for the primary contact person to enter a relationship with the 'broker' and reciprocate access to her own information and contacts.

However, this broker knowledge is not always sufficient to gain access. Sometimes the risk that important information will reach the wrong persons is simply too high. In this case, the information will not be transmitted. Alternatively, a very interesting contact person may not exhibit enough reciprocal interest to enter a relationship. This in turn leads to the question, why do contact persons develop relationships that go beyond their pure interest in acquisition of the information provided by the broker? Ronald S. Burt mentions this problem in the following way:

> The critical decision obviously lies in selecting the right person to be a primary contact. The importance of trust has already been discussed. With a trustworthy primary contact, there is little loss in information benefits from the cluster and a gain in the reduced effort needed to maintain the cluster in the network. (ibid)

However, can trust, which is obviously essential to the management of strategic relations, arise if persons know each other only via selective contacts? Why should the person who is asked feel obliged to provide the requested information? Conversely, how can we trust in someone and be obliged to a person, when she is obviously only interested in her own gains, consciously waiving embeddedness in a system of strong relations among friends and instead exploiting opportunities and structural holes in her social environment?

The answer to these questions is simple. Even the strategic optimization of position-based social capital requires a minimum level of trust and commitment within the respective relationships. The willingness of other actors to engage in risky enterprises, their likelihood to pass on sensitive information or to recommend an acquaintance that might disgrace them later, increases with the trust they place in their contact person who, in turn, can only expect a person to provide the requested information or recommendation if he is motivated by feelings of obligation.

In summary, besides merely knowing other actors, gaining their trust and obligation becomes crucial for obtaining access to and mobilizing the resources they control. Even more importantly, only through trust and obligation do relations between actors gain this absolute certainty, making relational capital, despite the complexity, contingency, and fragility of each 'relation', a stable form of 'capital' that can be 'possessed' like a private good. We face the same problem with the emergence of a *generalized* exchange in contrast to a simple economic exchange. There must be something that goes beyond the bilateral exchange interests. Moreover, some resources and benefits can *only* be accessed because of trust and obligation, as the willingness to participate in risky enterprises is mainly based on trust and the benefits that are not restricted to a certain time span, like help and solidarity in times of need, are based on obligations.

Trust Capital

The trust other actors place in an actor is itself a kind of capital. It is the *expectation* that trusting in *ego* is justified and one's trust will not be misused. If R denotes the gain an actor might obtain from trusting in *ego*, and P the potential loss should *ego* misuse the trust, and if further p is the grade of expectation that *ego* is worth trusting him and $1 - p$ that he will misuse the trust, respectively, then the expected utility $EU(T)$ for placing trust in *ego* is pR and that for mistrusting $EU(M)$ equals $(1 - p)P$. Thus, to trust the threshold of $R/P > (1 - p)/p$ applies because of the condition $EU(T) > EU(M)$. This makes it clear that a high level of expectation justifies trusting even if there is the possibility of very high losses.

It is just this that helps to obtain resources and services, such as sensitive information, even if the 'costs' are high due to the risk of the abuse of trust, and purely 'strategic' motivation is not sufficient to balance this. By *trust capital*, therefore, we mean the number of resources and benefits an actor can activate because of his reputation for being trustworthy. Trust capital is determined by the size of the respective expectation p, the value of the resources and benefits that can be activated and, of course, the total number of relations.

Obligation Capital

An actor can also possess *obligation capital*. The degree to which an actor is committed to another is a function of the number of 'credit slips' from the other actor, which he holds. Obligation is an additional *motivation* of the obliged actor to pass on the requested resources or benefits. Last but not least, obligation capital is strengthened by the knowledge that violating the obligation will result in the other actor's refusal to provide future benefits. In a way, the cooperation gain of the entire system is at risk if actors fail to reciprocate, and this is common knowledge among actors connected by a relation. An actor's obligation capital thus consists of the number of obligations other actors owe him, the value of the resources and benefits that these favours can activate, and the total number of relations he maintains.

Trust and obligation have a common background that lies at least partly in the other central dimension of social capital: system capital (see below). Trust emerges from the actors' reliability in keeping their promises, which at some point in time becomes habitual. Obligations, on the other hand, arise from the advances that lead to the other's indebtedness. These mechanisms do not work because of pure altruism but because of certain *interests* in the relation *and* certain *safeguards* ensuring that the given credits will not be abused and that a broken promise or the failure to meet obligations will be noticed. When mutual trust and obligations have been successful for some time and when they have been considered as useful, they are finally supported by their own *morality*, an affective attitude of reciprocal orientations, which stabilize the entire system even when the interests in a specific case have weakened or obligations become one-sided. The theory of the 'evolution of cooperation' explains the structural conditions for this (see Axelrod 1984). Trust and obligations become highly probable when actors' dependency on each other is high, when they expect a common future with no time limits, when there are no alternatives anyway and no disturbing influences or changes from outside, and when the actors continuously maintain contact with each other. This is especially, or maybe even only, the case in networks with *strong* ties.

In light of this, the problem of relational capital is obvious: each 'intentional' or 'strategic' investment in a relationship requires at least the pretence that it is about more than just optimizing access and the selfish control of the other's resources. The process of creating trust through reliability and obligations through credit slips is not compatible with open 'rational' and 'egoistic' reasoning and investments. If there is only the smallest hint of such 'strategic' action within the relationship, the investment will have been in vain. This is the reason why a real rational actor cannot try to collect all his relational capital via weak ties only. He *has* to have some very *good* friends, with whom he regularly meets together with their friends, and whom he does not simply regard as an optimal means to relational capital, although, aside from the intrinsic gain attached to them, that is exactly what they are.

The Complex Composition of Relational Capital

The problem is clear now: weak ties are essential for access to non-redundant information and to different kinds of social life and strong ties for the creation of trust and obligations. Even the most skilful position-surfer has to engage in a certain share of strong ties to be trusted in and obliged to. This leads to an interesting and at the same time difficult optimization problem. How can an actor best construct a network of strong and weak ties in order to increase his relational capital, as well as other forms of capital in a manner that will optimize utility production? While this is a difficult problem, empirical reality is not that complicated since multidimensional friendships and acquaintanceships are not generally the result of calculated investment. Helpful social networks are mainly *by*-products of other activities and are especially motivated by the communal good of sociability, which is itself a desired good. Relationships are primarily developed and maintained without instrumental secondary motives.

The wealth and technological advances of modernity have led to an interesting phenomenon with regard to relational capital. People's wealth and decreasing dependency on each other unfortunately undermine opportunities for inconspicuous and cheap establishment of relations and for casual 'optimization' of network composition. People do not get together anymore because they do not need each other anymore and because the shadow price of 'useless' social gatherings has risen. Instead people sit, materially well equipped but lonely, in front of the television. Although people still appreciate sociability and indeed like to have many friends, wealth is destroying the *structural* basis for meeting each other informally and thus the structural basis for social capital. What is not created simply as a by-product of normal life, and therefore is not really 'authentic', has to be purchased as a kind of 'instant product' on particular upcoming markets.

3. System Capital

What is System Capital?

Relational capital 'resides' in the social relations of individuals and it can be used, within certain limits, intentionally or even in an 'optimizing' fashion. Typical examples of relational capital are the access to either information or help in situations of need. System capital refers instead to the existence of shared social norms, aimed at an efficient control of the members' behaviour within a collectivity. System capital differs from relational capital in two respects. First, the 'possession' of social capital is completely detached from *individual* actors, for system capital only exists through the relations between actors. James S. Coleman once expressed it like this, 'As an attribute of the social structure in which a person is embedded, social capital is *not* the private property of *any* of the persons who benefit from it' (Coleman 1990: 315, emphasis added). Second, system capital does not emerge directly from intentional individual efforts. *All* actors in either a network or collective profit from system capital independently of whether they have invested in it. *All* actors are affected by the erosion of this capital, even those who did participate in its creation and are interested in its continuation. In short, system capital is a *collective good*, or more precisely, a public good whose production does not merely depend on the individual actor's interest and investment. Its production faces the typical problems of collective action and social dilemma solving, in which everyone has an interest in the production of collective goods, but nobody is willing to invest (for details about collective good problems and solutions, see Esser 2000*a*: chapters 5, 7; for collective good interpretations of social capital, see especially Diekmann 1993).

Three Kinds of System Capital

If we consider the concept of system capital as a collective good, concepts and theories that refer to the problem of 'collective action' (in the sense of Olson 1965) become relevant to the explanation of the production and use of system capital. This is particularly so in relation to the problem of free riders and the unintentional dissolution of collective structures supporting a social capital system (see Coleman 1990: 318 n.). Different types of system capital can be differentiated since system capital refers to very different aspects of the emergence of collective bonds, such as functioning social control, collective attention to public affairs, the existence of generalized trust, seen in the willingness to cooperate, the 'functioning' of the entire system, and the overall validity of values, norms, and morality. The above-listed features can refer to three mechanisms of efficacy of system capital, the degree of social control and collective attention as *system control*, the overall trust in the entire system as *system trust*, and the validity of values, norms, and morality as the *system morality* of a network or another collective.

System Control

System control emerges if information on the behaviour of network members circulates fast and completely, making it unlikely that deviant behaviour will go unnoticed. This 'monitoring capacity' of a group or organization allows it to overcome problems of collective behaviour fairly easily, because free riders will be detected (see Buskens 1999: 18 n.). In addition, whoever unselfishly contributes to the community, and thus deserves credit, will be rapidly noticed. System control is the direct consequence of a certain network *structure:* high density, closure and stability of relations. System control is not always convenient. Those who have lived in a small rural village, shared a house with other people, or dealt with an inquisitive concierge may easily understand what is meant here.

System Trust

System trust is a diffuse and generalized trust in the proper functioning of the entire system and is not related to single actors (see for instance Fukuyama 1995; Misztal 1996; Hardin 2002; Levi 1998). Social trust is created mainly against the 'technical' background of a working system control. Whoever proves to be unworthy of the trust that was placed in him, for example, has to expect that it will be the last time he will enjoy the advantage of the cooperation of others. Given an efficient system control, all actors will be aware of this fact, so that each can be almost certain that his trust and efforts will not be exploited and that free riding will be discovered. With the emergence of system trust, however, the functioning of the system becomes more independent of the structures of information flows. To a limited extent system trust has the capacity to bridge certain gaps in the system control.

System Morality

System morality, in general, is the 'morality' of reciprocal commitment and the 'validity' of the norms and values comprising all actors. System morality consists of a specific, orientating attitude that directs actions simply because actors conform automatically without considering 'egoistic' consequences. The perception of the entire system is coloured by this attitude, which subordinates actors to their actions under the imperatives of respective values. Morality, norms, and values therefore constitute a *social* relation of reciprocal *orientation* beyond the specific, single relations of the network. Once brought to life, morality, norms, and values considerably reduce the risk of social dilemmas. Furthermore, the costs and risks of all individually or collectively useful transactions can be considerably reduced. This is probably the most important contribution of system morality. Examples of system morality include working groups dedicated to the morality of high performance or societies with a marked sense of citizenship. It is important to remember that system morality, like system control and system trust, can also be system *evils* (see Portes and Landolt 1996). The prevalence of the morality honour-among-crooks facilitates organized crime, the fundamentalist morality of terrorist organizations abrogates the minds of their recruits, and the carefully hidden 'values' of closed political interest groups and the political elite, for example, are not what one would refer to as collective 'goods'.

With the establishment of an overall system morality the collective becomes even more independent of structural conditions of information flows, like density, closure, or stability of the network, than it does as a result of system trust. System morality, however, can only develop as a result of efficient system control and circulating system trust.

The Functioning of System Capital

System control builds something like the 'technical' basis for system capital. System trust and even more so system morality, however, build up its superstructure. Without an efficient system control, system trust and system morality would eventually decline. It is the *performance* of the system that rewards actors and helps them solve problems. This convinces actors to accept system control and adhere to system trust and system morality. These performances of the system are collective cooperation gains that cannot be ascribed to any specific individual but depend on the collective performances of the actors. If these performances exist, system trust and system morality will be maintained as well. The structural basis, however, continues to be the system control and its necessary structural preconditions, density, closure, and stability of the network. Behind the operation of system control we find the same preconditions that operate for the emergence of social order in general: lack of alternatives and actors' *dependency* on *that* very system.

Of course, actors are largely unaware that they are the beneficiaries of such structural arrangements and that they are dependent on the performance of the system, so they sometimes do something that unintentionally destroys the system control, the performance of the system, and therefore the system trust and system morality as well. James S. Coleman describes the following example, which is not uncommon:

> For example, where there exists a dense set of associations among some parents of children attending a given school, these involve a small number of persons, ordinarily mothers who do not hold full-time jobs outside the home. Yet these mothers themselves experience only a subset of the benefits of this social capital generated for the school. If one of them decides to abandon these activities, for example, to take a full-time job, this may be an entirely reasonable action from a personal point of view, and even from the point of view of her household and children. The benefits of the new activity for her may far outweigh the losses that arise from the decline in associations with other parents whose children attend the school. But her withdrawal from these activities constitutes a loss to all those other parents whose associations and contacts are dependent on them. (Coleman 1990: 316)

There might be similar effects if just one family moves from a well-functioning network of acquaintances or if a specific colleague in a harmonious university faculty is offered a chair at another university. Under unfavourable circumstances, this can lead to a breakdown of the entire system, including the whole production of system performances.

In large, complex societies the creation of system trust and capital as a whole is considerably limited by the above-described structural constraints. To some extent, these limits can be overcome in ways that are similar to those suggested by Mancur Olson (1965) for collective action problems. These comprise selective incentives for control, trust, and morality, or the nesting and interconnection of societal sub-units. Even these strategies, however, seem to have become increasingly difficult. Some of the symptoms of decline of modern democracies, as well as differences in their capacity for development—for instance, those between northern and southern Italy—are attributed to the (non-)existence of this kind of 'collective' social capital (Putnam 1993;

Paxton 1999). However, it remains unclear what are the best mechanisms to foster and sustain civic-mindedness in large and complex societies. Whether civic-mindedness is necessary for the maintenance and functioning of such societies is also controversial. It may very well be that modern societies function through mechanisms other than system control, system trust, and system morality; for instance, as a gigantic network of interdependencies, resembling more a 'market' system than a social unit, which may need control, trust, and morality in order for it to operate effectively. To take up the case Putnam discusses, the problem of chronic underdevelopment and amoral familism in southern Italy might not, therefore, be due to lack of social capital, but perhaps a not sufficiently developed system of comprehensive interdependencies. Against this background, a functional differentiation of the society can hardly be realized.

4. A General Overview

Social capital is the value of all the resources and benefits that an actor can obtain and control through his embeddedness in *relationships* to other actors. We have distinguished two kinds of social capital: *relational capital* and *system capital*. Each individual actor can *intentionally* invest in his *relational* social capital. He can increase his *positional capital* by bridging structural holes, he can increase his *trust capital* by being reliable, and he can increase his *obligation capital* by getting credit slips from other actors through advances. *System capital*, in contrast, emerges as a by-product of relational capital. 'Individual' intentions are not sufficient in themselves to create system capital. A functioning *system control*, and based on this a high level of *system trust*, as well as an obligatory *system morality* are collective goods that cannot be produced by single actors. The 'technical' prerequisite is the *structural* characteristic of the *entire* network of relations, in which the actors are embedded: density, closure, stability, and the dependency of the actors on the existence of the specific network.

Figure 1.3 shows a possible distribution of these different forms of social capital in a system of actors.

The different *lines* between actors (A, B, C . . .) represent the different forms of *relational* capital they possess. The different *circles* represent the existence of

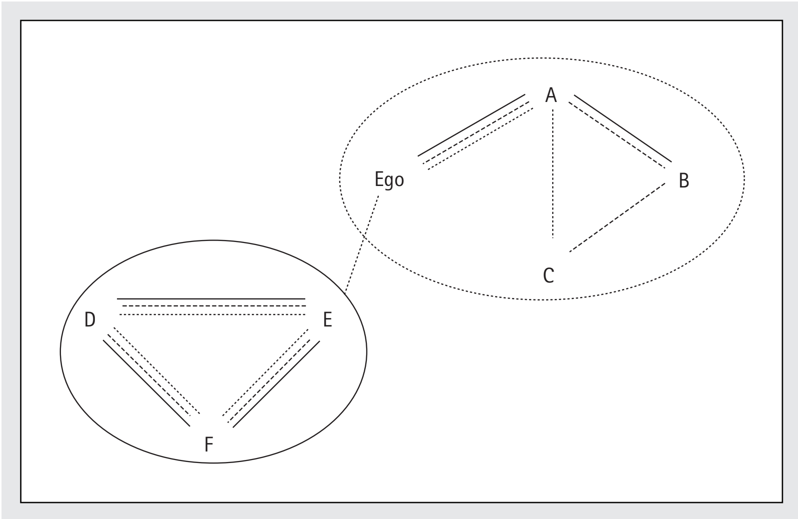

Fig. 1.3. Different froms of social capital in a network of relations

system capital in a collective (of actors). With regard to relational capital, we assume, for simplicity's sake, relations to be symmetrical. Positional capital is represented as dotted lines, trust capital as dashed lines, and obligation capital as solid lines. Analogous thereto, system control is represented as dotted circles, system trust as dashed circles, and system morality as a solid-line circle.

Relational capital (lines):	
Positional capital	....
Trust capital	– – – –
Obligation capital	———
System capital (circles):	
System control	....
System trust	– – – –
System morality	———

In the graphic presentation, we display only the sort of system capital with the 'greatest extent' or 'highest order', assuming the existence of the following kind of hierarchy among them: system control, system trust, and system morality. This means that system trust is based on system control (and cannot exist without it), and system morality is based on system trust. We can assume, therefore, that the respective lower-order forms of capital have to be present as well and hence do not need to display them.

Two separate networks, each consisting of three actors, are considered in the graph. They are connected by the actor ego. *Ego* is a liaison-person closing the structural hole between closed networks. We might assume that *ego* is doing so to increase his *position*-based social capital and that this is also why he maintains just one contact person in each network, following the rules for effective relationship management as suggested by Burt (1992: 17 ff.). *Ego* knows person A and is also tied to him by trust and obligations. In contrast, he is only acquainted with person E through the other network; there is neither trust nor obligations within this relationship. Thus, while he can expect to receive help from A in problematic situations, from E he cannot expect this as E has no reason to help him. This is especially true if helping *ego* damages E's relationship with close friends D and F. Actors A, B, C, and *ego* constitute one network, in which a certain amount of system trust prevails; from which everybody would profit if it came to a collective project. This system trust, however, is only partly ensured by a dense network structure. A, B, and C know each other but *ego* stands somewhat apart. This sort of incompleteness creates structural problems for the information flow. It is thus to be expected that the production of system control will eventually suffer, as will the system trust. As a result, *ego* might soon fail to profit from the system trust involving B and C, although the bilateral relation with A may probably endure for a while. However, it is also possible that the entire system capital will collapse because the disrupted flows of information could lead to irritations within the relations, thus affecting the other relations as well. The situation is different in the second network. Here, all three actors, D, E, and F, are completely tied to each other via relations of knowledge, trust, and mutual obligations. As a result, a strong system morality also exists. This system morality is secured by the density and closure of the relations and the thus possible system control and system trust. The consequences of the rather 'thin' contact of E to the 'stranger' *ego* are obvious. Either *ego* has to make efforts to accumulate additional positional capital for E so that E will not lose interest in him, especially if the information coming from the other network is not very interesting, or *ego* has to build up trust and obligations with E, as well. In doing so, *ego* cannot completely ignore E's good friends. It can be added that *ego* and E also (unintentionally) create a collective good by virtue of their bridge relation between the two networks, the bridging between two systems with potentially positive consequences for *all* members in both systems (for these collective-good aspects by liaison-persons bridging separated networks by filling structural holes see Putnam 2000: 22 n.).

The various concrete resources and benefits that constitute social capital can be assigned to the six different forms of social capital. Non-redundant *information* and various kinds of sociability are provided by positional capital, the *readiness* of other persons to become involved in *risky enterprises* depends on the trust capital of an actor, and *help and solidarity* are barely to be expected without any previous accumulation of credit slips and obligation capital. System control, system trust, and system morality are resources created and available 'collectively' and comprising: *social control* of and *collective attention* to both deviant behaviour and altruistic advances; a highly *generalized readiness to provide assistance without an immediate payoff*, and without an immediate request for 'compensation' in terms of trust or generalized exchange; the absolute *validity of values, norms, and morality*, which makes collective action possible without 'rational' reflections.

Mechanisms and structural *conditions* for the creation and accumulation of social capital in its six different forms can be summed up as follows. As far as individual investments are concerned, as in the case of position capital, the rules of utility maximization apply. Actors will renounce investment of market goods as long as they receive payoffs for building up and maintaining relationships and will structure their relations so that they gain as much (positional) capital as possible! Thus, in order to accumulate positional capital, *relationships must be managed effectively*. Here it is useful to have many *weak* and *non-redundant ties*. On the other hand, *reliability* and visible *commitments help one achieve trust capital*, and visible and attributable advances, such as the collection of *credit slips, help one create* obligation capital. For this purpose, the structures of *strong ties*, in which reliability can more easily be recognized, advances properly attributed, and violations of trust and obligations controlled, are more important. The evolution of system control depends on the speed and completeness of the *information flow*. System trust, as well as system morality, is created via the experience of a certain *performance of the system*. Both function as a special orientating *attitude*, determining the way in which actors perceive their situation, independently of the behaviour of concrete single actors. System trust and system morality might be distinguished in the following way. The former depends mainly on the continuous experience of system performance, while the latter displays the features of an 'attitude', providing orientation and defining the situation. This attitude will continue to exist even if the performance of the system decreases. Structural preconditions for all three kinds of system capital are the *density*, *closure*, and *stability* of the entire system on the one hand, and on the other, the *dependency* of actors on the performance of the system.

It must be remembered that *all* forms of social capital, including 'individual' relational and even 'egoistic' and 'strategic' accumulated positional capital, display features of a collective good. Thus, the conditions for the production of collective goods in general become important with regard to the creation and maintenance of *each* form of social capital. These are the conditions for the evolution of cooperation amongst rational egoists or a system of generalized exchange, respectively. Moreover, this means that investments and advances have to pay off in the long run. This is already true for individual forms of social capital, i.e. relational capital, and even more so for its collective forms, i.e. system capital.

Figure 1.4 systematizes the types of social capital, the resources and performances that can be mobilized through them, the mechanisms producing the different types of social capital, and the respective typical conditions for its production.

5. Conclusions

The concept of social capital has been a topic of interest for some time. However, it is certainly not a new idea (see the surveys referred to in sections 1 and 2, for example Flap 1999; Lin 2001*b*). Social capital is just another expression for cooperation gains, which antagonistic and egoistic actors might theoretically exploit through their interactions with others. The problems associated with the production and maintenance of social capital, how social order and 'generalized' exchange can emerge among 'rational' actors, are not new either. It is nothing less than the problem of how social order can emerge among 'rational' actors. Here, especially, a number of recent developments, particularly those arising from the combination of economic and sociological considerations in explanation of reciprocity, obligations, and (seemingly 'irrational') relationships, help to better explain the (often surprisingly effortless) surmounting of problems of collective goods; and it is no accident that in the meantime, economists themselves have had similar thoughts, acknowledging

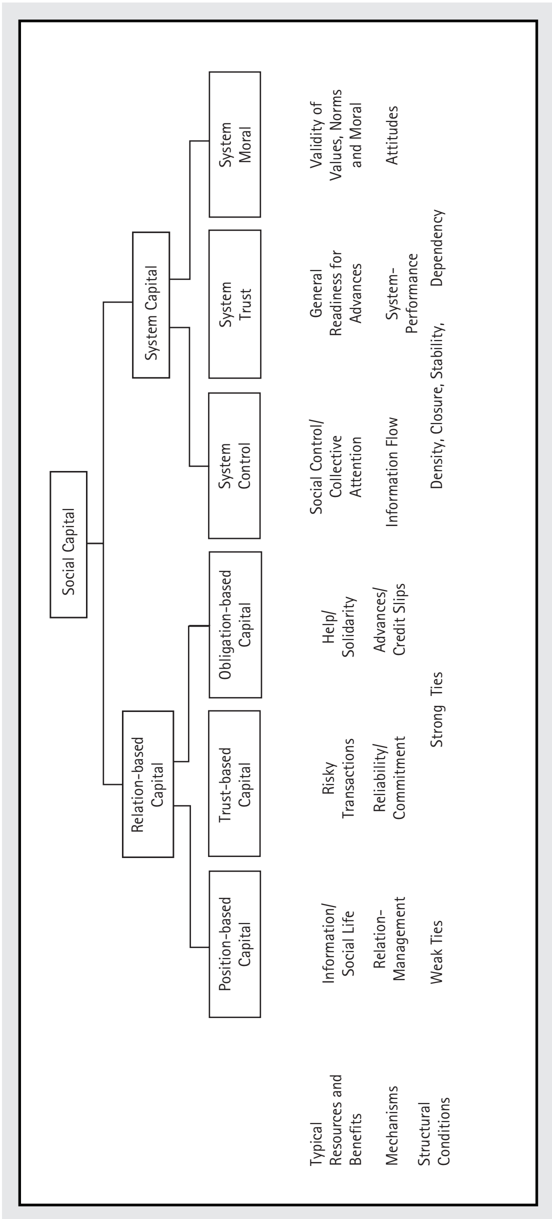

Fig. 1.4. A systemization of the different forms of social capital

that reputation and the existence of reciprocal obligations are important aspects of economic transactions (compare, for example, the contributions by Bolton and Ockenfels 2000; Fehr and Gächter 2000 on the empirical effects of norms of reciprocity in dilemma situations).

The introduction of the concept of social capital was an important stage in 'socializing' the notion of resources, capital, and investment and in emphasizing the peculiar value of social relations, social control, trust, and the existence of an entire system of 'generalized' exchanges as a kind of capital without which other forms of capital could not be used or even be produced. It was especially David Hume who incorporated the idea that 'society' *alone* provides the individual with resources that help him overcome the problems he faces:

> 'Tis by society alone he is able to supply his defects, and raise himself up to an equality with his fellow-creatures, and even acquire a superiority above them. By society all his infirmities are compensated; and tho' in that situation his wants multiply every moment upon him, yet his abilities are still more augmented, and leave him in every respect more satisfied and happy, than 'tis possible for him, in his savage and solitary condition, ever to become. When every individual person labours a-part, and only for himself, his force is too small to execute any considerable work; his labour being employ'd in supplying all his different necessities, he never attains a perfection in any particular art; and as his force and success are not at all times equal, the least failure in either of these particulars must be attended with inevitable ruin and misery. Society provides a remedy for these three inconveniences. By the conjunction of forces, our power is augmented: By the partition of employments, our ability encreases: And by mutual succour we are less expos'd to fortune and accidents. 'Tis by this additional *force*, *ability* and *security*, that society becomes advantageous.
>
> (Hume 1967: 485)

In this quotation from David Hume, 'Society' is of course a rather general term for the modern concept of social capital, but one can easily identify the two meanings of social capital which were focused on here in Hume's argument: relational capital, on the one hand, as that social capital which individuals control by social relations, and system capital, which they control by their embeddedness in a complete system of such relations. The two types have much in common, of course, but they differ in at least one important aspect. Actors can invest in relational capital by means of 'individual' actions (at least under certain, not uncommon conditions, like the existence of norms or markets of reciprocity), whereas they *cannot* invest individually in system capital, because that is a case of 'collective' action. Having made such conceptual clarifications, social research is better placed to engage in the important task of explaining the specific mechanisms through which one or the other form of social capital is formed, and its consequences for the particular social processes under investigation. It is hoped that the *explicit* differentiation between the two types of social capital here discussed may help in such a task.

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CHAPTER 2

A NETWORK THEORY OF SOCIAL CAPITAL[1]

NAN LIN

The concept of 'social capital' has captured the imagination and attention of a wide range of scholars and professionals in diverse disciplines and practical arenas. Since the notion of social capital has generated multiple definitions, conceptualizations, and empirical measurements, the continued diversity in such usages without integration may undermine and ultimately bring its downfall as a rigorous scientific concept and theory of social analysis. The purpose of this chapter is to describe a network-based theory of social capital and to point out how such a theory should help resolve a number of prevalent and critical issues. While it is beyond the scope of this chapter to present details on each of these issues, the chapter identifies the central topics and proposes avenues to possible solutions, with references provided for further readings.

The chapter begins with a discussion that places social capital in a family of capital theories, and points to its network-based conceptual origin.

1. Definition and Theory

To gain a better understanding of 'social capital', it is necessary to place it in the context of different theoretical types of capital (Lin 2001*a*: chapter 1). 'Capital', first of all, is both a concept and a theory.[2] As a concept, it represents investment in certain types of resources of value in a given society. As a theory, it describes the process by which capital is captured and reproduced for returns (Lin 2001*b*: 3). For example, in the classical theory of capital, Marx defines capital as part of the surplus value created in a production process (Marx 1933 [1849]; 1995 [1867, 1885, 1894]; Brewer 1984). He also describes it as a process in which those controlling the means of production capture the surplus value, including capital, through their taking for themselves the difference in values generated in the production market—where labour is paid the lowest possible wage—and those generated in the trade and consumption markets (Lin 2001*a*: chapter 1) where the produced commodity is priced for higher value. Neo-capitalist theories offer a similar definition of capital but different theories. The human capital theory, for example, postulates that investment in certain human resources (skills and knowledge) may also generate economic returns, even for labourers participating in the production market (Johnson 1960; Schultz 1961; Becker 1964/1993). Likewise, social capital theory conceptualizes production as a process by which 'surplus value' is generated through investment in social relations (Lin 2001*a*: 2). The neo-capitalist theories differ from the classic capitalist theory in that they argue investment and return of capital may apply to the labourers as well.

Social capital is defined as resources embedded in one's social networks, resources that can be accessed or mobilized through ties in the networks (Lin 2001*a*: chapter 2). Through such social relations or through social networks in general, an actor may borrow or capture other actors' resources (e.g. their wealth, power, or reputation). These social resources can then generate a return for the actor. The general premiss that social capital is network based is acknowledged by all scholars who have contributed to the discussion (Bourdieu 1980, 1983/1986; Lin 1982; Coleman 1988, 1990; Flap 1991, 2001; Burt 1992; Putnam 1993, 1995, 2000; Erickson 1995, 1996).

Social capital thus defined allows us to formulate theoretical propositions for identifying the sources of social capital and the returns to social capital. Elsewhere (Lin 2001*a*: chapter 5) I have identified three principal sources (exogenous variables) for social capital: (1) structural positions (an actor's position in the hierarchical structure of social stratification—the strength-of-position proposition), (2) network locations—(an actor's location in the networks that exhibit certain features, such as closure or openness, or bridging, as illustrated in the strength-of-tie propositions), and (3) purposes of action (instrumental—e.g. for gaining wealth, power, or reputation, or expressive—e.g. for maintaining cohesion, solidarity, or well-being) (Lin 2001*a*: chapter 5). Propositions, then, link these sources and types of actions with social capital in causal sequences.

In the remainder of the chapter, I will address a number of prevalent and critical issues, pertaining either to specification of the network-based theory and its measurement, or to the linkage of the theory and measurement to the more general literature on social capital. Specifically, the issues to be addressed include: (1) whether social capital should be assessed in terms of its potential capacity (access) or its actual use (mobilization), (2) how rigorous measurements can be developed, (3) how social capital can be distinguished from social networks per se, (4) how the theory clarifies the linkages among purposes of action (i.e. instrumental or expressive), network features (e.g. density, bonding, or bridging), and social capital, and (5) how the theory and its measures can consistently be used for both micro- and macro-level analyses.

2. Access and Mobilization

There are two theoretical approaches to describing the process of how social capital is expected to produce returns. In one process, social capital is conceived in terms of its capacity—the pool of resources embedded in one's social networks—and the expectation is that the richer or greater the capacity, the better the return. Thus, the description entails the linkage between *accessed social capital* and its expected return. In another approach, social capital is defined in terms of its actual use in production and the expectation is that the better the capital used the better the return. This description focuses on *mobilized social capital*. Accessed social capital estimates the degree of access to such resources or the extent to which a potential pool of resources capable of generating returns is available in the networks to the actor. It indicates the capacity of capital. An assessment or inventory of resources in the social networks of an actor—accessible or embedded resources—reflects such capacity. The assumption is that this capacity largely determines the degree of returns, but the actual process of how such capacity is actually used relative to a particular action (e.g. finding a job or getting a promotion) is omitted in the description.[3] On the other hand, mobilized social capital reflects the actual use of a particular social tie and its resources in the production or consumption in the marketplace. It represents a selection of one or more specific ties and their resources from the pool for a particular action at hand. For example, using a particular contact with certain resources (e.g. his/her wealth, power, or status) in a job-search process may indicate a mobilized social capital.

While it seems that mobilized social capital better reflects the actual process of linkage between capital and attainment, in effect, this presumed linkage is often incomplete or inadequate. The use of a specific social tie to help in a job search, for example, may or may not be the optimal choice for the action at hand. Also, the study of a particular mobilized tie and its resources is contingent on the particular measurement used. No measurement can claim to capture the entire job-search process. Further, the network and its pool of resources may produce returns through other, unmeasured avenues. It may well be that ties in social networks provide routine but unsolicited job information, which may eventually become critical in getting a better job, without the actor's actually searching for that or indeed any job (Lin 2003). When confronted with the question, in a study, whether the actor actually engaged in job search or mobilized help, the actor may indeed and justifiably indicate 'no', as he/she did not actually engage in an active job search. Nor would she/he consider the information offered by ties the result of an active job search (i.e. mobilization of the tie). The absence of evidence for mobilized social capital in a job search, thus, does not rule out that social capital has worked but in an 'invisible' way.

The theoretical expectation on the invisible return to invested resources is not unique to social capital; human, cultural, and other types of capital theories also deploy accessed capital in their formulations. In fact, in most theories and studies on human capital and cultural capital, the focus is on accessible capital rather than mobilized capital. For human capital, the overwhelming attention has been given to the capacity (e.g. education and on-the-job training) rather than how the capital (i.e. skills and knowledge) is actually used or assessed to generate the return (e.g. earnings) (Becker 1964/1993). For cultural capital, again, the focus has been on the production and demonstration of the capacity (Bourdieu 1972/1977; DiMaggio forthcoming).

Relying on data on accessed social capital is problematic, since there is no perfect measure of the entire network and, therefore, its pool of resources (see next section). Relying on data on a specific contact elicited in a job-search study for social capital is even riskier, as it inevitably is restricted by the measurement limitation and misses a significant portion of the invisible hand of and returns to social capital. Therefore, in current research, accessed social capital as well as actual use of social capital should be both measured and closely examined, if possible.

3. Measurements

Measurement of social capital from the network perspective also parallels the two processes: access and mobilization. Access to social capital has traditionally been measured with a name-generating methodology. Typically, a question is posed, such as, 'Whom do you usually discuss work problems with?' and a sampled respondent is asked to provide a list of names of those who provide such services or exchanges. Further questions about the characteristics of the named (name interpreters), as well as relationships among them and between the respondent and each of them, provide data for reconstructing the density of the network, and for estimating the quantity and/or quality of social resources (e.g. socio-economic statuses) of those named.

However, this name-generating methodology has several limitations. First, the content universe from which a particular question (e.g. work problem discussion) is drawn is usually undefined or unknown to the researcher. Sometimes multiple questions are posed to capture multiple content areas (Fischer 1977; Wellman 1979). Since the universe is unknown, it is difficult to argue that such questions representatively sample a particular universe. Second, the number of names generated is limited, typically ranging from only three to five. Therefore the reconstructed 'network' is of limited range and scope. Some studies have tried to overcome these limitations by leaving the list open-ended (Wellman 1982). However, such an approach is costly, time consuming, and impractical for coding in larger-scale surveys. Finally, since the names that come to the respondent's mind usually are those with stronger relationships to the respondent, the resources in the captured pool tend to be homogeneous and relations homophilous relative to the respondent. As research has demonstrated and argued, weaker and bridging ties to other parts of the social structure may nevertheless be critical (Granovetter 1974; Lin 1982; Burt 1992). Missing data on such potential links to other levels of a social hierarchy may underestimate, for example, the utility of an individual's social capital for instrumental purposes, such as social mobility (see elaboration in the section, 'Purposes of Action', below).

An alternative methodology has recently appeared (Lin and Dumin 1986). The position-generating methodology systematically samples a list of positions in a social hierarchy (e.g. ranked occupations in a society). By using systematic sampling (e.g. equal intervals) or stratified sampling (e.g. occupations prevalent for different gender, ethnic/racial groups, or classes), each sampled occupation is presented to a respondent, who is asked to indicate whether she/he knows anyone in that sampled position. Since the rank distance is known between every pair of sampled positions and among all the sampled positions, the responses to the set of positions can then be used to estimate, with known measurement errors, the potential pool of resources (i.e. in the occupational hierarchy) accessible to each respondent. Indexes (e.g. the total number of accessed positions, the range or difference between rank scores of the highest and lowest accessed positions, and the highest position score accessed) can be constructed to represent social capital, that is, the capacity or pool of resources embedded in the respondent's networks. Since such access is not contingent on the strength of ties (which can be assessed relative to each accessed position), it largely (but not completely) overcomes the tendency to evoke homogeneous or homophilous ties present in the social networks.

The position-generator methodology has been widely employed in empirical studies around the world (Erickson 1996; Tardos 1996; Flap and Boxman 2001; Lin, Fu, and Hsung 2001) and shown to have high degrees of reliability and validity. It also has shown flexibility and adaptability to specific substantive settings (van der Gaag and Snijders 2003, 2005), to types of hierarchical positions (e.g. relative to social, political, cultural, or economic resources) (Erickson 1996; Lin 2001*b*; Flap and Volker forthcoming). It seems adaptable for different societies, populations, or returns, and for incorporating additional dimensions for analysis (e.g. gendered or ethnic social capital).[4] Nevertheless, the position-generator methodology has had a very recent history; much work remains to sharpen its adaptation to various societies and its ability to sample representative positions from a stratification system at hand.

It should be noted that the name-generator and the position-generator methodologies also differ on another set of conceptual grounds. Name generating is intended to create a list of individuals in the actor's networks, resulting in a sample of respondents' social ties and nodes in their networks: it is a person-focused methodology. Position generating, on the other hand, canvasses the extent of access to structural positions in a hierarchy: it is a structure-focused methodology. The name generator is useful for identifying significant others in the actor's personal networks; whether they occupy similar or different hierarchical positions is of secondary significance and interest. On the other hand, the position generator is useful for assessing vertical reaches in the hierarchal structure to which the actor has access through social ties. How many persons there are or how strong the relationship is at each accessed position is of secondary analytical importance. In either case, further probing may yield additional information. For example, the name generator may also reveal information about each named person's socio-economic characteristics and thus their structural positions. The position generator may also reveal whether each accessed position has multiple occupants whom the actor knows and how close their relationship is. Nevertheless, in the case of the name generator this additional information does not recover missing information about the range of respondents' contacts with various structural positions; in the case of the position generator, the thickness of contacts with the full range of positions in the structure is probably under-represented. Thus they represent alternative strategies, suited for different conceptual purposes. The name generator is suitable for probing the depth of close ties, whereas the position generator facilitates studying breadth of access to various levels of a hierarchy.

Mobilization of embedded resources for a particular action is a complementary rather than substitute measurement of access to embedded resources, as it inevitably focuses on a particular and limited number of ties and their resources used in a particular action. Research typically employs a critical-episode approach to identify the use of social capital. For example, a large body of research examines whether personal contacts are used in job searches and whether the resources the contacts possess (e.g. socio-economic characteristics) make a difference in the likelihood of success or the level of attained statuses. The evidence is that anywhere from a third to two-thirds of studied samples around the world would indicate that contacts are used, but the others, anywhere from a third up to two-thirds of the respondents, mentioned no use of contacts (Granovetter 1974; Marsden and Gorman 2001). Further, it is clear from the literature that mere use of any personal contacts provides no relative advantage in the labour market. However, contact resources (e.g. the contact's power, wealth, or status) that represent mobilized social capital do make a difference (Lin, Ensel, and Vaughn 1981; Marsden and Hurlbert 1988; De Graaf and Flap 1988). That is, among those who use contacts in a job search, those who mobilize contacts with better resources tend to obtain better jobs. This confirms the significance of mobilizing embedded resources in the labour market.

Questions have been raised as to whether the lack of evidence for the use of social contacts in many job searches suggests that social capital may be of limited significance. As mentioned earlier, however, absence of identified help may not reflect the lack of utility of social capital. Current arguments and research show that job information can flow in networks, especially networks rich with embedded resources, without any parties actively seeking jobs or job information (Lin 1999*b*, 2003). Such flow and utility of information and contacts may reflect the informal workings of social capital, or its invisible hand. Thus, measuring the actual utility of social capital for returns in a marketplace (be it instrumental or expressive) requires assessment of access and both visible and invisible use of resources embedded in networks.

The measurement of contact resources as mobilized social capital has also been criticized (Mouw 2003) on the ground that much of the effect (i.e. any association between the contact's occupational status and respondent's post-contact attained occupational status) is due to the homogeneity effect (similarity between the contact‘s occupation and the respondent's attained occupation)—the selection of the contact, rather than the contact's superior status positively affecting respondent's superior attained status—the influence of the contact. However, the theory of social capital principally hypothesizes that it is the benefit of mobilized resources (contact's status) relative to the initial status of the job seeker that should make a difference—the strength-of-position hypothesis. That is, it predicts that the contact's relatively superior position, in comparison to the job seeker's initial position, should be evidence of the utility of social capital. Indeed, from the same data set Mouw used to demonstrate his argument (the Detroit study), even when those cases that showed similarity between respondents' initial occupations with contacts' occupations were removed from the sample (to eliminate the homogeneous ties), the positive association of respondents' original statuses with contacts' statuses retains its significance. This means that seeking, obtaining, and successfully utilizing contact's superior resources are positively associated with obtaining better statuses.

The attained status represents improved status resulting from the utility of a superior contact, thus closing the status distance between contact's status and respondent's initial status. This is not only unsurprising, but indeed expected, as many of the respondents ought to be now at a similar or approximate status level as compared to that of the contacts themselves—the general homogeneity principle applies to occupants at comparable or horizontal level of positions (Blau 1977). Consider, for example, Fernandez's study of telemarketers who made referrals for new hires (Fernandez and Weinberg 1997). All successful referrals brought in new telemarketers, thus achieving complete homogeneity between contact (referrers') status and the job seekers' (referreds') newly attained status. This would reduce the remaining observations for Mouw's demonstration to zero. It is the status gap between the original positions of successful applicants and their referrers (i.e. most of the referred probably initiated with lower statuses than the telemarketer referrers) that attests to the utility of social capital.

Thus, in measuring mobilized social capital for specific actions, it is important to measure the initial and attained positions or statuses for the actor as well as the positions or statuses of contacts in order to reflect completely the process by which social capital returns added value.

4. Social Networks and Social Capital

By now, it should be clear that while social capital is contingent on social networks, they are not equivalent or interchangeable terms. Networks provide the necessary condition for access to and use of embedded resources. Without networks, it would be impossible to capture the embedded resources. Yet networks and network features by themselves are not identical with resources. Rather, variations in networks or network features may increase or decrease the likelihood of having a certain quantity or quality of resources embedded. Thus, network features should be seen as important and necessary antecedents exogenous to social capital. For example, for a given network, density or closure of networks may increase the sharing of resources among participants as individuals and/or as a group (Bourdieu 1980, 1983/1986; coleman 1990:

chapter 12). On the other hand, sparse or open networks may facilitate access to better or more varied resources or information, control, or influence (Burt 2001; Lin 1999*a*).

Thus, equating networks with social capital is incorrect. Equating dense or closed networks with better or greater amount of social capital is conceptually flawed. What is needed is to specify conditions under which certain network features such as density or openness lead to the capturing of certain resources that generate certain kinds of returns (Burt 2001). Elsewhere (Lin 2005), I have argued that once network features (closed or open) are treated as exogenous variables, modelling of the social capital process may proceed to specify how features of networks (e.g. closed or open), social capital (e.g. diversity of embedded resources), and returns (instrumental or expressive) form a sequential set of variables for analysis.

To sort through the complex relations between features of social networks, social capital (embedded resources), and differential returns to social capital, the network-based theory offers clarification. The next section articulates some of the theoretical explications.

5. Purposes of Action, Homophily and Heterophily, and Needs to Bridge or Bond

The network-based theory of social capital recognizes important patterns of social relations. They vary in terms of the intensity and reciprocity of relations among the ties. Lin (1986) delineates three layers of social relations that differentiate such intensity and reciprocity. The innermost layer is characterized by intimate and confiding relations: ties that share sentiment and provide mutual support. Typically, the ties engage in reciprocal and intense interactions—strong ties in a dense network (e.g. kin and confidants). These relations are *binding* in that ties are obligated to reciprocate exchanges and services to one another. The intermediary layer is characterized by ties that generally share information and resources, but not all members necessarily having direct interaction with one another or maintaining equally strong and reciprocal relations with each and everyone else. These relations, typifying most social networks with a mixture of stronger and weaker ties or direct and indirect ties, nevertheless are said to be *bonding*. Sharing certain interests and characteristics keeps the ties in a 'social circle'. The outer layer is characterized by shared membership and identity, even though the members may or may not interact among themselves. Here a collectivity or institution provides the backdrop for the membership or identity (e.g. church, clan, or club). These relations, mediated through the collectivity, provide members a sense of *belongingness*.

How well such layers of relations serve the participants depend on what purposes or goals they hope to achieve. As has been pointed out earlier, social capital serves two different purposes: instrumental and expressive (Lin 1982, 2001*a*: chapter 4). For instrumental action, the purpose is to obtain additional or new resources (e.g. getting a better job, a promotion, or building a new school or clinic). For expressive action, the purpose is to maintain and preserve existing resources (e.g. to preserve one's marriage, or to keep the neighbourhood safe). The network strategy for expressive action is easily understood: to bind with others who share similar resources, who are sympathetic to one's needs to preserve resources, and who are prepared to provide support or help. Thus, the expectation is that binding and bonding relations should be useful for accessing and mobilizing necessary resources for expressive actions (Lin and Ensel 1989). The network strategy for instrumental action, however, is more complex. The three layers of relations do not indicate or address what kinds of resources are implicated. Thus, a further consideration is the richness of embedded resources—social capital—in each layer of relations. For some, the ties among intimate relations in the inner layer are rich in resources; for others, the resources are poor. For inner layers with embedded rich resources, then binding and bonding relations should also enhance instrumental actions. For others, resources in such layers may be poor or insufficient to achieve instrumental goals. Then, the inner layers with its binding and bonding relations may be confining rather than facilitating for instrumental actions. Further analysis is needed to link purposes of action, social relations, and accessing and mobilizing social capital.

One well-established principle in sociology helps assessing how likely a set of relations carry rich or poor resources—the homophily principle (Lazarsfeld and Merton 1954; Homans 1950; Laumann 1966; Wellman 1979; Lin 1982; McPherson, Smith-Loving, and Cook 2001). The principle proposes that there is a strong correspondence between intensity of interactions, shared sentiment, and shared resources. Thus, in the inner layer, among ties that bind, there is also a tendency for similarity of resources—or capital. For a given actor, then, it is hypothesized that resources of others close in relations are similar to hers/his. When no additional or new resources are required, in the case of expressive actions, the homophily principle has little to add to the positive effects offered by the inner layer of dense and reciprocal relations.

When additional or better resources are needed, in the case of instrumental actions, then the utility of inner layers is contingent on how rich or varied resources are among the ties. If the embedded resources are relatively rich, the inner layer, with its reciprocal relations, is quite capable of providing resources to achieve individual and collective instrumental goals. The binding and bonding relations are expected to access and promote the mobilization of sufficiently rich resources to attain such goals. However, if the actor is relatively poor in resources, then the inner layer of relations, due to the homophily principle, is also likely to involve ties with relatively poor resources. Binding and bonding relations would not be as useful and may even be detrimental. What then should the network strategy be to seek and find richer and more varied resources?

One important argument in the bridging theories of networks is that as one reaches out of one's inner circle, one is more likely to encounter ties with more diverse characteristics and resources—the heterophily principle (Granovetter 1973; Lin 1982, 2001*a*: chapter 4; Burt 1992: chapter 1). As the relationships extend from the inner layer to the outer layer, the intensity of relationships decreases, the density of the network decreases, and, most critically, resources embedded among members become more diverse or heterophilous. Heterophilous resources not only reflect different and new resources, but also increase the chances of containing better resources.

Thus, in assessing whether binding or bonding social relations provide sufficient or insufficient social capital, two contingent factors need be considered: (1) the purpose of the action and (2) the richness of embedded resources. For expressive purposes where additional resources are not of priority, then binding and bonding relations are likely to be the necessary and sufficient condition for the access and mobilization of embedded resources. For instrumental purposes where additional and better resources are needed, binding and bonding relations may not be sufficient. Accessing better social capital may require extending one's reach beyond inner circles—bridging through weaker ties or non-redundant ties (e.g. structural holes).

This articulation conceptualizing expressive or instrumental actions, layers of relations in social networks, and embedded resources helps clarify some confusion in the general literature on the so-called 'bonding' or 'bridging' social capital (Woolcock and Narayan 2000: 230; Putnam 2000: 22–4). *Social capital does not bind, or bridge. It is the nature of the social networks that bind, bond, or bridge*. The relative advantage of networks that bind, bond, or bridge afforded to social capital (access and mobilized of embedded resources) depends on the purpose of action. For expressive actions, which seek solidarity and preservation for individuals or the collectivity, binding relations or dense networks benefits the sharing and mobilizing resources. For instrumental actions, which seek gains in resources, bridging relations or networks with linkages to the outer layers of the networks offers possible needed different and better resources. This clarification critically relies on an understanding of the fundamental networking principles of homophily and heterophily.

6. Micro- and Macro-Level Correspondence

Up to this point, the network-based theory of social capital has been described largely from a micro-perspective. The present section will extend the theory and its measurement to the macro-level analysis, where the research interest lies in the investment, formation, and returns to social capital for the collectives—be they associations, organizations, communities, regions, or nation-states. The fundamental argument is that this theory and the measurements can be adapted to the macro-level so that applications and analysis of social capital at the macro-level show consistency and logic along with its micro-level analysis. Individual and collective social capital, in this manner, will maintain a theoretical and methodological coherence across levels of analysis, though the complexity at the collective level requires further elaborations.

The conceptual transportability is obvious. A collectivity can be seen as a social network with members as actors who bring their resources to bear, so that social capital for the collectivity is reflected in the embedded resources as provided by members. Thus, for a collectivity, analysis can be conducted to assess the degree of intensity and density of interactions among the participating members and the diversity of resources brought to bear from the members.

We may define this type of social capital, resources brought to bear from the members, the collectivity's *internal social capital*. The effectiveness of its internal social capital can then be assessed relative to the goal of collectivity—expressive or instrumental. For expressive purposes, or solidarity and cohesion of the collectivity, the utility of internal social capital is contingent on the density of relations among members—the binding and bonding among members. Greater density enhances the offering and sharing of members' resources, so that the internal social capital is expected to enhance the collectivity's solidarity and cohesion.

For instrumental goals, the collectivity is in need of other and better resources; internal social capital may not be sufficient. There is a need for the collectivity to reach out for such resources. In this case, further analysis may be conducted for the collectivity's connections to other collectivities and social units (e.g. organizations and individuals) and for the diversity of resources embedded in these other collectivities accessible to the collectivity (see, for example, Paxton 2002). We may define such accessed resources *the external social capital* for the collectivity. The likelihood of accessing external social capital, then, is expected to depend on the openness of the collectivity (the extent to which individual members and officers have connections to the 'outer layers' of the collectivity's networks), the richness of the accessed resources, and the relationship between the connections (some bridges need to be strong enough to sustain the necessary exchanges or help relations).

Finally, most collectivities tend to engage in both expressive and instrumental actions. Internal and external relationships and internal and external social capital need to be both analysed to assess the likelihood of effectiveness to attain either or both such purposes.

Thus, the network-based theory of social capital as applied to the macro- or collective level maintains its theoretical fundamentals. Yet, it is important to recognize the complexity at the macro-level where each collectivity is simultaneously a network of members and an actor in a web of social networks. Analysis of internal and external social capital takes into account this duality while maintaining the conceptual linkages among purposes of action, network density, embedded resources, and needs to bind, bond, or bridge, as in the case of the micro-level analysis. Likewise, the significance of the underpinning network principles of homophily and heterophily also holds. This consistent theoretical and analytic application of the network-based theory overcomes much confusion witnessed in the literature on the studies of social capital at the macro-level, criticized for the lack of conceptual and theoretical rigour and multitude of unrelated measures[5] (Portes 1998; Foley and Edwards 1999; Durlauf 1999, 2002; Baum 2000).

7. Conclusions

This chapter introduces a network-based theory of social capital. Conceived as investment in embedded resources in social networks, social capital focuses on resources (e.g. wealth, power, and reputation) of ties that an actor, an individual or collectivity, can access for attaining certain goals. A number of issues are discussed in order to alleviate certain confusing and confounding conceptualizations and analyses prevalent in the current literature. It is pointed out, for example, two approaches can be used to assess the effects of social capital: its capacity (accessed resources) and actual uses for particular actions (mobilized resources). The discussion also calls for rigorous and systematic measurements coupled with the theory. Recent development in the position-generator methodology facilitates a research programme that can now be based on precise theoretical and measurement requirements. Another important elaboration concerns the clarification of the binding, bonding, and bridging relations and networks, and shows how these network features may impinge on the effects of social capital, contingent on the purpose of action—instrumental or expressive. It also explicates the feasibility and utility of the theory and its measurements for collective as well as for individual actors.

Other issues remain to be explored. For example, trust has also been employed as a component or an indicator of social capital (Fukuyama 1995; Kawachi, Kennedy, and Glass 1999; Lochner, Kawachi, and Kennedy 1999; Hardin 2001). However, its 'social' nature is uncertain (Whiteley 1999; Glaeser, Laibson, and Scheinkman 2000; Seligman 2000) and conceptually it might be more appropriate to consider it as an antecedent or effect (Newton 1997; Torsvik 2000; Buskens 2002) rather than a component of social capital (Lin 2005). Cook, in a recent essay (2005), also suggests that trust should be seen as a factor distinguished from social capital. It may serve as an important mediating factor for social capital to generate effects in time or situations of uncertainty and high risk. These discussions do not take away the conceptual significance of trust in its various forms (e.g. trustworthiness, generalized trust, personal, or social trust). Rather, they remind us that it behoves us to refrain from equating trust with social capital.

Another issue is how to conceptually handle the large body of literature on civic engagement that has largely been built on measuring participation in voluntary organizations. One danger of using a variety of readily available data from national or international surveys and censuses is our inability to resolve controversial or contradictory results, which may be used as evidence against a theory of social capital. Hopefully, the network-based theory helps formulate sharper and more focused measures to inventory both internal and external social capital for associations and organizations so that their capability to access and mobilize resources in actions augments a deeper understanding of the utility of participation.

Notes

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2. Applying both definition and theory to a term has been a common practice in social sciences. It is also true in the cases of the classical Marxist theory, human capital, cultural capital, as well as social capital.
3. A possible distinction between 'access' and 'embeddedness' is in order here. Some scholars, including this writer, at times have followed the convention of using the term 'embedded' resources to represent the capacity or pool of resources embedded in the social networks, while at other times, they have used the term 'access' (Lin 1999*a*) instead. 'Embeddedness' applies more appropriately to the description of the pool of resources in a social network, from a structural or gestalt perspective. An inventory of all or representative resources in a complete network reflects or measures the embedded resources. 'Access' more appropriately applies to an actor's conscious map or cognitive knowledge of such embedded resources. A network may embed certain resources not present in the cognitive map of an actor. Such resources therefore cannot be determined by asking an actor, even though they are embedded in his/her overall network. So if the analysis concerns all the pooled resources of a network as a whole (e.g. in an organization), 'embeddedness' may be appropriate (Granovetter 1985) to assess its social networks whereas if the analysis concerns actors (whether individuals or collectivities) awareness of resources embedded in their ties or networks, 'access' would be more appropriate.

4. A forthcoming volume (Lin and Erickson, forthcoming) will report studies employing the position generator methodology in the US (Moren-Cross and Lin; Magee), in Canada (Enns et al.; Tindall and Cormier), in Japan (Miyata et al.), in Taiwan (Fu; Hsung et al.), in Hong Kong (Lai), in the Netherlands (Flap and Volker; Bekkers et al.; Moerbeek and Flap; van der Gaag et al.), in Hungary (Angelusz and Tardos), in Italy (Barbieri and Sciortino), and in Mongolia (Johnson forthcoming).
5. For example, in Putnam (2000), indicators of social capital include, among others: memberships in associations, p. 54; services as officers or committee members in organizations, p. 60; club and church attendance, p. 61, p. 71; union memberships, p. 81; attending exercise classes, health clubs, or league bowling, p. 112; trust, honesty and morality, p. 139; 14 factors including turnout in presidential elections, visiting friends, p. 291.

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CHAPTER 3

SOCIAL CAPITAL AND COLLECTIVE ACTION[1]

T. K. AHN
ELINOR OSTROM

Over the past decade, the concept of social capital has been utilized in multiple empirical studies that are of interest to most social scientists. Some scholars, however, participate in the social capital discourse as critics of the concept's ambiguity. Arrow (1999), for example, argues that the factors often referred to as social capital do not possess the qualities of capital. Solow (1999) characterizes social capital research as plagued by 'vague ideas' and 'casual empiricism'. Durlauf (1999, 2002*a*, 2002*b*) and Manski (2000) seem to agree with Solow.

The frequent efforts by social capital researchers to clarify the meaning of social capital (Foley and Edwards 1999; Ostrom 1999; Ostrom and Ahn 2001, 2003; Paxton 1999; Portes 1998; Putnam 2000; Turner 1999; Woolcock 1998) have not yet succeeded in making sceptics understand what social capital is, let alone converting them to agree with the usefulness of the concept (Baron, Field, and Schuller 2002). The scepticism is healthy and not totally ungrounded. We argue that there are many steps that need to be taken to make social capital a less confusing concept. These include: (1) clearly defining it and relating it to the other forms of capital, (2) identifying its forms, (3) clarifying the meaning of each of the forms of social capital, (4) establishing causal relationships among the forms of capital and their consequences, (5) developing better measures of social capital, and (6) designing stronger empirical studies to test social capital theories. This is more than we can do in one chapter (or, even one book—see Ostrom and Ahn 2003). Thus, we will concentrate here on an effort to clarify one of the key confusions we have noted in the way that social capital has been defined in the literature.

We identify two quite different approaches to social capital. One is an approach to social capital from a more traditional neoclassical economics viewpoint. The other is an approach to social capital from the perspective of what we call the second-generation theories of collective action. From a traditional economics perspective, social capital is a fancy term used to refer to the cooperation-enhancing effects of repeated interaction and networks. Some find it useful because using the social capital concept helps to gain an audience and to expand the scope and relevance of reputation economics to many real-world problems. Others are uneasy because such an expansion is often achieved at the expense of conceptual, theoretical, and empirical rigour. Thus, critics suggest that since the basic idea of social capital is either unoriginal or something that can be accommodated within the neoclassical economic and rational choice approach, why not just use the set of well-established and clearly defined concepts such as preferences, strategies, equilibrium, reputation, cooperation, etc., instead of engaging in murky discourses using the term social capital.

From a perspective of second-generation collective-action theories, social capital is a useful framework that presents quite a different substantive understanding of how cooperation is achieved in societies. The social capital approach is an ongoing effort to give a better theoretical account of the accumulating empirical studies of real-world collective-action problems, informed by the advances made in behavioural and evolutionary game models as well as experimental studies of social dilemmas.

As we will argue in later sections, the critical, apparently subtle and often unnoticed, difference between the two approaches to social capital has to do with understanding trustworthiness. From the viewpoint of traditional neoclassical economics, trustworthiness is a person's *behavioural* characteristic, in particular, the tendency to cooperate due to the self-interested incentives to do so. On the other hand, from the perspective of social capital informed by the second-generation theories of collective action, we understand trustworthiness as a characteristic of *preferences*. In other words, trustworthiness is embedded in a person's intrinsic norms by which one reciprocates others' trust even when material self-interest does not compel one to do so.

Understanding trustworthiness as a characteristic of preferences has far-reaching ramifications. First, trust, which we define as a belief of reciprocation by others, can be extended based on a truster's assessment of a trustee's intrinsic motivation, along with incentives provided by rules and networks. Second, trustworthiness, along with networks and institutions, is a form of social capital that breeds trust and facilitates collective action. Third, a need arises to understand the dynamic causalities among the three factors: the way networks and institutions affect the level of trustworthiness in a society, and the ways in which the level of trustworthiness affects the formation of networks and institutions. Thus, the major portion of this chapter will be devoted to presenting a view of trust and trustworthiness based on the second-generation theories of collective action.

1. Two Understandings of Social Capital

All forms of capital involve investments that increase the probability of higher returns from individual and joint efforts over a future time period. Physical capital is easier to understand as it involves deferring consumption in order to invest in physical infrastructure and tools that the investor hopes will increase the productivity of future activities. Physical capital is the easiest form of capital to measure given its objective form, even though assigning a value to physical capital involves very similar problems to those of valuing other forms of capital. When scholars first introduced the concept of human capital (Schultz 1961), it took time for the usefulness of this concept and ways of measuring it to be accepted. The concept of *human* capital is now recognized as a useful concept and a major factor in economic productivity. Coleman (1988) and Becker (1996) both link family, work group, and other lower-level networks to human or personal capital that affect individual utilities and capabilities to achieve collective outcomes.[2]

Broadly speaking, social capital is a set of prescriptions, values, and relationships created by individuals in the past that can be drawn on in the present and future to facilitate overcoming social dilemmas.[3] Those who directly benefit from their own or others' past efforts in building these patterns may be a small or large group. The externalities from the use of social capital may be positive (when a group of neighbours clean up a neighbourhood) or negative to the outsiders (when a gang of youth protect their turf) (see Ostrom 1999 for a discussion of the dark side of social capital). Social capital reflects a way of conceptualizing how cultural, structural, and institutional aspects of small to large groups in a society interact and affect individual incentives and behaviour and resultant economic and political change.[4] It is a core concept of a synthesizing framework that can be applied whenever joint endeavours of individuals are critical in achieving a collective goal.

We identify *trustworthiness*, *networks*, and *institutions* as three basic forms of social capital. Alternative ways to refer to the forms of social capital exist, but we choose the concepts that are more commonly found in the collective-action literature. This is because we believe that the theories of collective action, especially its second-generation versions that incorporate heterogeneous preferences of individuals, are the key building blocks in constructing a theoretically sound social capital perspective. Trustworthiness, networks, and institutions are capital in the broad sense that they serve as independent inputs to economic and political processes and outcomes. These forms of capital do not always satisfy the conditions for being capital that Arrow (1999) advances,[5] but neither do human and physical capital (for elaboration, see Ostrom and Ahn 2003: xi–xxxix).

One important reason why the concept of social capital appears to some scholars to be ambiguous is an often-unnoticed divide within the social capital camp itself. One set of social capital researchers bestows priority to a group's cultural factors (addressed in this chapter as people's trustworthiness). Others maintain the mainstream neoclassical approach in which values and cultural factors are epiphenomenal to structural incentives. This is not always so clear-cut. Often, authors are not explicit where they stand on this issue. Explicitly addressing this issue is, in our view, a critical step toward more refined theories of social capital and collective action. The positive effect of social networks on facilitating collective action is well established. The fact that institutions can also have significant roles in cooperation also has strong support (North 1990;

Oakerson 1993; Evans 1996; Rothstein 1998, 2003), even though whether or not to include institutions as a form of social capital is a matter under debate.

We understand why there is hesitation among some scholars to include institutions as a form of social capital. For some scholars, such as Putnam and his colleagues (1993), social capital was the *independent* variable they identify as affecting the *dependent variable* of institutions—in this case, making a national, formal institution work more effectively in northern Italy as contrasted to southern Italy. Putnam himself, however, refers to the differential institutional history of the two regions for one part of his explanation for the growth of social networks in one region versus another (see also Sabetti 1996, 2002).

We adopt Douglass North's (1990) view of institutions as the 'rules of the game', which individuals use to organize their activities within and across all forms of organizational and interorganizational arrangements. The rules used by individuals to structure interactions are both formal and informal. Formal institutions clearly meet two of Arrow's criteria to be considered as capital, since they are the result of large investments in time and effort in trying to increase the flow of benefits to some individuals in the future.[6] Rules-in-use may evolve with less self-conscious investment, but they may also be the result of substantial conflict and debate in their formulation. Rules-in-form and rules-in-use (Sproule-Jones 1993) are both commonly understood and enforced prescriptions about what may, must, or must not be done. One grammatical structure underlies all rules that structure interactions in a legislature, in political campaigns, inside a firm, in sports, and among friends and neighbours trying to solve collective-action problems (Crawford and Ostrom 1995).

We see two issues here. First, institutions need to be viewed as including formal and informal sets of rules. Second, complex causalities exist among the different forms of social capital. Thus, trustworthiness and networks affect and are affected by the kind of institutions that have evolved. The types of rules that are adopted also depend on the networks and the levels of trustworthiness in existence (Pasotti and Rothstein 2002).

Part of the unease with the study of patterns of relationships among these forms of social capital and across time is that many social scientists use a static framework rather than a dynamic view of the world. In a static view, one variable cannot both be a cause and an effect. In a dynamic view of the world, however, efforts to invest in capital in one time period do generate capital that can be used to build more capital in the next time period. Investing in physical capital at one time period in order to be able to build more physical capital later, does not strike us as incorrect. We need to see institutions—rules of the game—as ways of helping individuals to gain more trust in the trustworthiness of others as well as using networks as a way of investing in better institutions. Further, institutions at time t are used to revise, update, or build new institutions at time $t+1$.

How to define institutions and whether or not to treat institutions as a form of social capital is one of the key issues in social capital research, but we hope that we have helped to clarify these issues. A more important divide, however, exists in regard to trust, trustworthiness, norms of reciprocity, and their place in a causal framework of social capital. The difficulties involved in articulating the meanings of such concepts have hidden the potentially critical divide between the two approaches for understanding social capital. But when analytically acute critics try to understand and reconstruct causality implied in social capital theories, the often implicit difference among the researchers of social capital frustrates the analyst's attempt.

We include characteristics of social structure and institutions as forms of social capital, but we take the view that trustworthiness—a term referring to the characteristics of individual preferences that facilitate individual cooperative behaviour in social dilemmas even in the absence of structural and institutional incentives to do so—is a critical form of social capital. The differences between the two approaches to social capital are often subtle. A simple dichotomy does not fully capture it. Consider the following two quotes:[7]

> Social capital can be defined simply as an instantiated set of *informal values* or norms shared among members of a group that permits them to cooperate with one another.
>
> (Fukuyama 1999: 16; emphasis added)

> ... Social capital refers to *connections* among individuals—social *networks* and the norms of reciprocity and trustworthiness that arise from them. ... A society of many virtuous but isolated individuals is not necessarily rich in social capital.
>
> (Putnam 2000: 19; emphasis added)

Fukuyama is probably the strongest proponent of the primacy of cultural aspects in social capital.[8] Bowles and Gintis' (2002: 419, quoted in Durlauf 2002*b*: 460) view that '[S]ocial capital generally refers to trust, concerns for one's associates, a willingness to live by the norms of one's community and to punish those who do not' seems to be in agreement with that of Fukuyama. This view is also echoed by Donaldson (2001: 25), who in his discussion of 'the ethical wealth of nations' states that '[M]orality may create an economic advantage for nations in ways broader than the notion of an idealized market.' Yamagishi's (2001: 143–5) argument that the term 'trust' be reserved for beliefs on others' pure motivations—defined as trustworthiness in this chapter—is a notion of trust that corresponds to this cultural view of social capital.

Interpreting the quote from Putnam requires greater subtlety. It depends on what he means by 'norms of reciprocity and trustworthiness'. If they refer to Fukuyama's 'values', then Putnam is arguing that connectedness changes individuals' values. Putnam himself notes '[P]eople who have active and trusting connections to others—develop or maintain character traits that are good for the rest of society. Joiners become more tolerant, less cynical, and more emphatic to the misfortunes of others' (Putnam 2000: 288).

Another interpretation exists, however, that does not require values or value changes to explain norms of reciprocity and trustworthiness. It is a well-established result among game theorists that certain characteristics of social structure tend to facilitate cooperation even without changes in payoff structures—such as repeated interactions among a set of actors and networks that convey information of actors' intention and behaviour to others within the network. The overall connectedness of a society, especially through what Granovetter (1973, 1985) calls 'weak ties', facilitates collective action at a larger scale. If Putnam's quote is interpreted as such, it is possible to reduce those moral and cultural concepts to the beliefs (trust), strategies (cooperation), and behavioural patterns (reciprocity) grown out of the fundamentally selfish incentives provided by social structure. Russell Hardin's (2002; 2003) 'encapsulated interest' view of trust may be the notion of trust consistent with this view of social capital.[9]

Economists have studied trust as a problem of reputation using various forms of repeated games. In those games, self-interested players sustain cooperation not because they care about others, but because they try to maximize their own gains over time (Fudenberg and Maskin 1986; Kandori 1992; Kreps and Wilson 1982; Rubinstein 1979; Tirole 1996). Annen (2003) and Henning (2002) provide formal theories of social capital that describe how the various forms and degrees of connectedness, and the reputation effect stemming from them, result in cooperative behaviour by individuals who are selfishly motivated. Social capital becomes, in this view, not much more than a new framing device for the theoretical results that have been well known to economists for a long time. Using concepts such as trust, reciprocity, or culture to refer to such reputation effects may seem to obscure what is being argued; that is precisely the point Jackman and Miller (1996*a*, 1996*b*) make 'against' social capital. (Also see Manski 2000, who recommends that scholars economize on theoretical concepts.)

The problem arises when one aspect of the effect of a social network, which has been the subject of reputation economics, is exclusively advocated as *the* theory of social capital. We think that the contrast should be made explicit to clear out the conceptual ambiguities surrounding the concept and to construct a general causal theory of social capital. In this chapter, we present a theory of social capital that is consistent with the view that takes heterogeneous individual values (or preferences) seriously. In our previous works on social capital (Ostrom and Ahn 2001, 2003: xi–xxxix), we argued that the concept of social capital should be located in the framework of second-generation theories of collective action. In section 2, we discuss the second-generation theories of collective action as theoretical underpinnings of the approach we take to social capital. In section 3, we discuss the three forms of social capital—trustworthiness, networks, and institutions—as they affect trust and collective action. Our focus will be on trust, since the subtle differences in understanding the meaning and sources of trust are the key to understanding diverse views of social capital. In section 4, we discuss the subtleties in the concepts of trust and trustworthiness. In our concluding section 5, we discuss future directions in the conduct of social capital research.

2. Second-Generation Theories of Collective Action

The economic and political performances of societies, from villages to international communities, depend critically on how the members of a community solve the problem of collective action. Contemporary theorists of social capital, almost without exception, open their discourses on social capital by placing the problem of collective action at the centre of economic and political problems. The linkage of collective-action theories and the social capital approach is, at best, incomplete up to now. Social capital researchers use the collective-action paradigm primarily to *frame* their research problems (Brehm and Rahn 1997). Incorporating forms of social capital, such as trustworthiness, networks, and institutions, into a collective-action framework is a frequent approach in narratives, but is less often used in analytically rigorous formal models.

Theories of collective action concern social dilemma settings in which there is a group of individuals, a common interest among them, and potential conflict between the common interest and each individual's interest (Olson 1965). Collective-action problems arise whenever individuals face alternative courses of actions between short-term self-regarding choices and those that, if followed by a large enough number of individuals, benefit all. The problem is one of overcoming selfish incentives to achieve mutually beneficial results. Overcoming social dilemmas is not that easy; whatever others do, an individual is always better off by choosing not to cooperate with others. The game of the Prisoner's Dilemma is often used to characterize social dilemma situations succinctly.[10] As Arrow notes, even the basic and simple form of market transaction involves the problem of trust. Democratic governance also involves a variety of collective-action problems at different scales that boundedly rational citizens must somehow confront and overcome (Lupia, McCubbins, and Popkin 2000).

The first generation of collective-action theories (Olson 1965; Hardin 1968) concluded that individuals could not achieve joint benefits when left by themselves if they were in a situation where everyone would benefit whether or not they contributed to the effort. The ways of overcoming the supposed inability of individuals to solve these problems included regulation by an external authority, provision of selective incentives, or privatization. The first-generation collective-action theories were a valid criticism of the naive belief that individuals with common interests would voluntarily act to achieve those common interests, expressed by earlier group theorists such as Bentley (1949) and Truman (1958). Research on collective action has shown that the first-generation theories, while not entirely wrong, are partial theories rather than a general theory. They only represent the limiting case of the ways that collective-action situations are structured and how individuals cope with them (Bolton and Ockenfels 2000; Feeny et al. 1990; McCay and Acheson 1987; National Research Council 2002—to name just a few relevant studies).

In particular, the universal selfishness assumption of the first-generation theories has been repeatedly rejected by empirical research conducted in the field and the experimental laboratory (see Ostrom 1998 for an overview of this research). One cannot, however, replace the universal selfishness assumption with a universal altruist assumption.[11] Individuals do exist, who are concerned only with their own immediate material gains, at the expense of others. At the same time, a significant proportion of individuals have intrinsic preferences. They take into account other individuals' interests as well as their own in the decisions they make (Frey 1994, 1997). Further, non-selfish individuals differ among themselves in terms of the extent to which they depart from purely selfish motivations. The actual choices of individuals in social dilemmas are strongly affected by various contextual factors (Frohlich, Oppenheimer, and Kurki 2001).

Unlike first-generation theories of collective action that presuppose universal selfishness, second-generation collective-action theories acknowledge the existence of multiple types of individuals as a core principle of modelling human behaviour (Ostrom 1998, 2000). In addition to continuing to use standard non-cooperative game theory—the key modelling tool of the first-generation collective-action theories—second-generation theories also use behavioural and evolutionary game theories (Camerer 1997, 2003; Gintis 2000; Gintis et al. 2005; Richerson, Boyd, and Henrich 2003) as well as other evolutionary models (Kurzban 2003). Many models of collective action based on behavioural or evolutionary game theories still use the solution concepts of the standard non-cooperative game theory. They address new kinds of questions, however, that are particularly relevant to social capital research. For example, one of the main concerns of behavioural game theory is the problem of social motivations, which has a direct implication to the discussion of trust and trustworthiness in social capital research (see Glaeser et al. 2000). Another example is the problem of endogenous preferences, a key issue in evolutionary game-theoretic approaches to collective action (Bowles 1998, 2000; Güth and Yaari 1992; Güth and Kliemt 1998; Güth, Kliemt, and Peleg 2000) that provides a way to model the historical interaction between the institutional structures and individual learning within these structures (Putnam 1993; Frey and Stutzer 2002; Rothstein 1998).

3. Trust and the Forms of Social Capital

The second-generation theories of collective action take the intrinsic motivations of individuals seriously. This section, after establishing a concept of trust as a *rational belief* about others' likelihood of reciprocation, explains how trustworthiness, along with networks and rules, affect the level of trust using a simple game of trust. Trust itself is not a form of social capital, but it is the key link between forms of social capital and outcomes. Understanding the concept of trust, and the reasons why people trust or do not trust others, and in regard to what decisions, is thus a key theoretical component in a theory of social capital.

The first problem in understanding trust is whether to define trust behaviourally or cognitively. Trust itself is a kind of belief but not an action per se.[12] Even in situations in which trusting immediately implies acting on that trust, the two are still conceptually distinct. Russell Hardin (2002: 58–60) documents how often scholars fall into the trap of using the term trust as if it is an action. The kind of action resulting from trust can be called in several different ways depending on the context and emphasis. Cooperation is the standard term in collective-action situations in which a conditionally cooperative individual acts on a belief that others would also cooperate. To highlight that the action is based on trust, 'entrusting' may be an acceptable term. Often times, especially in simple game models (e.g. see Bohnet, Frey, and Huck 2001), modellers use trust to refer to an action, but this practice has more to do with communication with readers than the modellers' position on whether trust is an action or a belief. They would not, thus, we think, disagree that entrusting (or cooperation) is in fact a better term.

Second, those who understand trust as—consistent with the lay view and dictionary definitions—a cognitive concept, diverge on their emphasis of the sources of trust. Many philosophers, sociologists, and psychologists have treated trust primarily as a personal disposition rather disjointed from the objective or rational basis.[13] The majority of researchers seem to treat trust as a kind of rational belief—in the sense of being grounded on the objective states of the world (Dasgupta 1988; Gambetta 1988; Hardin 2002, 2003; Levi 1998; Lyons and Mehta 1997). Due to social and educational influences, an individual may have a higher level of trust than another, other things being equal. This possibility cannot be entirely dismissed. However, individuals also learn by experience and update their expectations. Overall, it is reasonable to assume that those experiences (including secondary, indirect experiences) will have to be reflected in a person's expectation of the way others behave.

The key debate among those who agree on trust as a grounded expectation is over the primary sources of trust. Where does this expectation of certain behaviour come from? Before discussing that, let us define the class of social

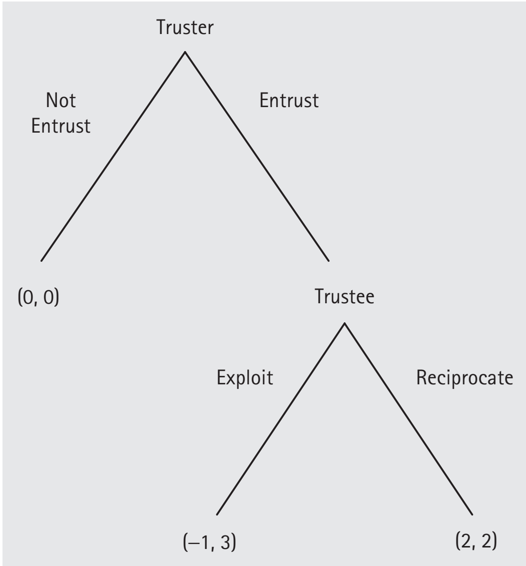

Fig. 3.1. A trust situation

situations in which trust matters. The situation can be summarized by what has been called the simple trust game—using the term 'game' loosely as an action situation—which can be viewed as a modified sequential prisoner's dilemma game (see Figure 3.1). We present a simple two-person game—not because we think that most collective-action problems are limited to two-person situations—but rather because a two-person game helps us to illustrate the dilemma clearly. Figure 3.1. is a general representation of a game designed expressly to examine whether a Truster would entrust a Trustee (see Berg, Dickhaut, and McCabe 1995) and studied extensively in the experimental lab (Ostrom and Walker 2003).

In the action situation depicted, a Truster must decide whether or not to take a certain action, which is generically called *entrusting*. If the Truster decides not to entrust, the status quo is maintained. If the Truster entrusts, it is the Trustee's turn to choose whether to reciprocate or exploit. Entrusting and reciprocating result in the mutually beneficial payoff set of (2,2). But the selfish incentive for the Trustee is to exploit and obtain a payoff of 3, which leaves the Truster a payoff of −1. This is worse than the status quo. Note that the interactive decision tree of Figure 3.1 does not constitute a game in the strict game-theoretic sense. The reason is that the payoffs at the end of the decision tree are not final utilities but rather a form of objectively measurable material objects (such as profits).

The trust situation involves another human actor who has the freedom to choose between at least two alternative actions once entrusted: one that is essentially reciprocal and the other essentially exploitative.[14] Of course, we can easily envision a situation in which once entrusted, the Trustee has a continuum of choices with two extremes of full reciprocation and complete exploitation. It is also possible that the Truster has a continuum of choices (as is often implemented in some experimental games—see e.g. Berg, Dickhaut, and McCabe 1995; Glaeser et al. 2000).

Second, for the Trustee, the choice of exploitation provides a higher material payoff. This rules out assurance games as relevant. In an assurance game, the belief of a first mover is that the second mover will choose an action that is consistent with the first mover's interest based on the second mover's interest and not on trustworthiness as such. In an assurance situation, two or more individuals' interests coincide. Thus, the only problem is for all to choose a coordinated action. The trust situation depicted in Figure 3.1 would change to an assurance situation if we changed the Trustee's payoff of 3 following exploitation into something less than 2. Then the Trustee's choice of reciprocating would generate the highest objective payoff not only for the Truster, but to the Trustee as well.[15] An example is that when we drive on a highway in the right lane and see a car approaching from the opposite side, driving on their own right lane, we *believe* that the other driver will not change lanes. The reason for such a belief is, of course, that we tend to think that the other driver cares for his or her own life.

The three forms of social capital we propose—trustworthiness of people, social networks, and institutions—are three primary reasons for a Trustee to behave reciprocally, as well as for a Truster to believe that the Trustee would reciprocate. The two different approaches to social capital discussed in section differ in terms of which among the three is central, which is secondary or even epiphenomenal, and what are the causal relationships among the three factors and between them and trust and collective action. Below we elaborate on the three sources that facilitate the outcome in which the Truster entrusts and the Trustee reciprocates.

Trustworthiness

By trustworthiness, we refer to the characteristics of the Trustee's preference for being trustworthy. As numerous one-shot experiments using prisoner's dilemma type monetary payoff structures have shown (see e.g. Ahn, Ostrom, and Walker 2003), a significant number of individuals in the Trustee's position do choose to reciprocate. At the same time, not all do. The fact that the magnitude of the gains from exploitation matters (Ahn et al. 2001; Clark and Sefton 2001) indicates that individuals are distributed on a continuous scale of trustworthiness. In other words, the size of the internal parameter that the individual assigns to behaving in a trustworthy manner varies across individuals (Crawford and Ostrom 1995). Behavioural game theorists (Bolton and Ockenfels 2000; Charness and Rabin 2002; Camerer 2003; Cox and Friedman 2002; Fehr and Schmidt 1999; Casari and Plott 2003) have developed formal models to reflect such motivational heterogeneity. While trustworthiness is an effective term to refer to the characteristics of individual preferences in a trust action situation, different terms may be used in other contexts. 'Habits' and 'values' (Fukuyama 1995: 33–5) are such terms. In that context, the culture of a society is reflected in the preferences or the 'habits and values' of individuals aggregated at a societal level.[16]

Networks

If the trust situation depicted in Figure 3.1 is repeated, or embedded in a social network composed of potential future partners of transaction, the Trustee is more likely to reciprocate when entrusted. Many theoretical arguments, from Granovetter (1973) to Axelrod (1981), have provided the logic behind such a result. Notice that individuals do not need to possess the character of trustworthiness defined in this chapter to refrain from exploiting a Truster in these contexts. Suggestively enough, the title of Axelrod's seminal article is 'The Emergence of Cooperation among Egoists' (1981), implying that the repetition of the situation, not the intrinsic motivation of players, is the key facilitator of cooperation.

An individual embedded in a network of ongoing relationships may not really care what happens to another member of a network who is temporarily in the position of the Truster. In fact, she might only care what happens to herself, and she may want more of the material object that is at stake. The Trustee embedded in a network, however, knows that it is in her interest not to *exploit*, but to *reciprocate* and to keep the relationship going. Following a reciprocal course of action would generate a stream of income into the future, which is greater than the gains from immediate exploitation. Networks with the capability of reliably transmitting information to others also encourage cooperative behaviour. Other members of the network will be informed of what a Trustee does now and probably condition their dealings with the Trustee on the Trustee's current behaviour. Therefore, though exploiting a Truster gives more to the Trustee now, it limits the Trustee's chances to interact with others in the network and to reap future income within the network.

Institutions

Individuals have invested considerable time and effort into the crafting of a diversity of rules related to many collective-action situations through all the ages (Milgrom, North, and Weingast 1990). Institutions are the commonly understood, agreed upon, and enforced prescriptions used by groups of individuals in multiple forms of organizations, ranging in scale from the household to international regimes. Institutions are thus an important form of social capital in that they may provide sufficient information and deterrents to greatly increase the likelihood that Trustees will behave in reciprocal ways even when they face very high material temptations to break the trust placed in them. Like all forms of capital, institutions vary in their strength and value. When a court system is judged by participants in market relationships to involve very high costs (in legal and illegal 'fees' and delays), the presence of a court system does not effectively change the incentives of a Trustee to yield to temptation.

Effective laws and rules create mechanisms that may reliably generate information and/or reliably punish *exploitation* of others in a given trust situation and thus increase the likelihood of collective action (Calvert 1995*a*, 1995*b*). If I don't send the merchandise you ordered on-line and that you have already paid for, you may report me as fraudulent to the relevant authorities, and I may be prosecuted. The information about my lack of trustworthiness will be disseminated to other potential buyers. I fear both consequences. Thus, when institutions are effective, I would rather *reciprocate* than *exploit*. You know that I know this (you have a positive expectation of being reciprocated by me when you entrust me), and thus entrust me.

The general causal picture of Figure 3.2 links trustworthiness, networks, and institutions to mutually positive outcomes in collective-action situations. These benefits may be widely shared (such as the impact of effective property institutions on development), narrowly shared (within a small set of

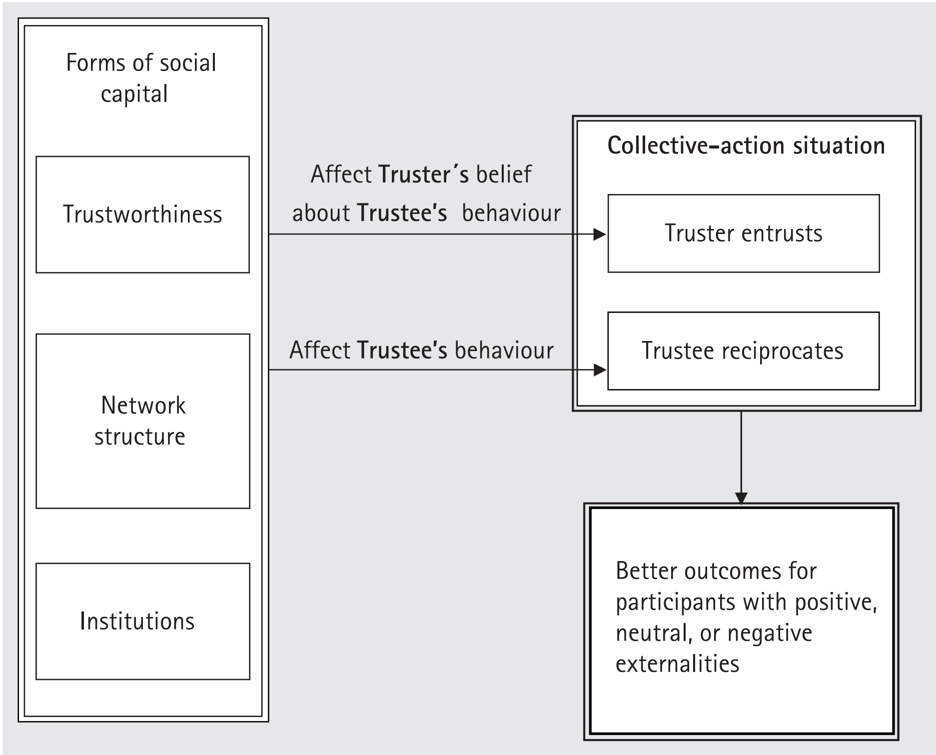

Fig. 3.2. Forms of social capital and collective action: a simple causal model

participants with few externalities from the collective action), or may even be costs for others (when the group is a gang or a cartel, which generate substantial negative externalities for others). We think it is important to have this general theoretical overview of how these broad concepts are related before moving on to more specific theoretical questions about these forms of social capital and their impact on collective-action situations.

First, in order to understand the role of trustworthiness, networks, and institutions in coping with collective-action problems, one needs to specify which of many collective-action problems are involved. The problems involved in providing public goods differ substantially from those involved in using a common-pool resource (see Ostrom, Gardner, and Walker 1994). Considerable variation exists within common-pool resource problems depending on the scale, extent of storage, and variability of the resource (Schlager, Blomquist, and Tang 1994). The type of rules used effectively to cope with one problem may not be effective in coping with others (National Research Council 2002). The number of people involved, their heterogeneity with regards to assets as well as preferences, whether there is a common understanding of the problem they face, the extent of overlap of the problem with either network structure or the jurisdiction of an institutional arrangement, all can have an effect on how specific attributes of trustworthiness, networks, and institutions affect actions and outcomes over time.

Second, we need to recognize that social capital, like other forms of capital, can become out of date and a drag on potentially beneficial change rather than a stimulus to improvement. We are used to thinking about physical capital as both a boon to productivity, when well matched to economic opportunities, but as a potential drag when changes occur. Many of the factories that built buggies were not able to convert to building automobiles, when the horse and buggy became an outmoded form of transportation. In a fascinating over-time study of social capital and productivity, Lyon (2000) examined the relationship between social capital and regional economic output for twenty Italian regions for 1970 to 1995. Lyon found that Putnam's measures of social capital were significantly positive predictors of regional output. On the other hand, he also found that measures of technological change in contemporary Italy were negatively correlated with all of Putnam's measures of social capital. Thus, the same social capital that created greater productivity can hinder technological change. The elite structure of many villages in rural Asia have become a drag on political and economic performance except where young, well-educated, and connected family members return to the villages and generate internal transformations that facilitate the kind of change that retains many good features of local institutions while creating new institutions to cope with emerging problems (Krishna 2002).

Third, complicated causal relationships are likely among these three sources of trust. Creating, modifying, and terminating institutions are higher-level collective-action problems (Kiser and Ostrom 1982; Ostrom 2005) that may or may not be solved given a heterogeneous mixture of preferences and the collective choice or constitutional choice rules in use. The level of trustworthiness affects the viability, quality, and the effectiveness of particular institutional arrangements and network structures. The possibility of forming wider and denser social networks beyond immediate family and work relationships, and the truthfulness of the information floating through the network channels, may also depend on the level of trustworthiness of participants in the network (Dasgupta 2002; Krishna 2002).

On the other hand, networks may do more than provide additional incentives for behaving cooperatively to selfish individuals. As the indirect evolutionary game models show, the availability of information about transaction partners' types is critical for the survival and spread of trustworthy preferences (Ahn 2001; Güth, Kliemt, and Peleg 2000; Heiner 2002). If that is the case, network structure affects trustworthiness (as the quote from Putnam in section 1 implies). For now, however, we refrain from elaborating this complex internal causality among forms of social capital. Instead, we treat the three forms as parallel stocks. (For further discussion of the dynamic causalities of trust, trustworthiness, and networks, see Ahn 2002.)

Figure 3.2 summarizes a simple version of causality between the three forms of social capital, beliefs and behaviour of individuals in a collective-action situation, and outcomes for those involved and potentially others. The critical difference between the two approaches to social capital is whether or not trustworthiness is recognized as an independent, instead of epiphenomenal, reason for behaving in a reciprocal manner, and, thus, a basis for individuals' beliefs that a significant proportion of others would reciprocate once entrusted. The diagram of Figure 3.2 is a view that considers trustworthiness as at least an independent source of such behaviour and beliefs.

4. More on Trust and Trustworthiness

The frequent appearance of such concepts as trust and trustworthiness in the two approaches to social capital hides their underlying differences. We do not propose that there is one 'correct' way of using these concepts. But the criticisms that the entire conceptual scheme of social capital is too ambiguous will be reiterated unless social capital theorists make it clear what they mean by trust and trustworthiness. Hardin is one of few scholars with a clear position on this matter, though his position is different from ours. Consider the following quote:

> … [I]t is the high level of trustworthiness of people in my network that generates this benefit [from mutual cooperation]. Moreover, their trustworthiness is, on the encapsulated-interest account, the results of their having an interest in being trustworthy toward those with whom they have ongoing interactions that are beneficial and are likely to continue to be. … More generally, what seems to concern most of the writers on social capital is such networks of relationships, so that one might call their social capital 'network' or 'interpersonal' capital. (Hardin 2002: 84)

Hardin is right in saying that trustworthiness is a core form of social capital. Notice, however, that his understanding of trustworthiness differs from ours. For us, trustworthiness refers to a person's preference that makes the person reciprocate even in the absence of networks or institutional incentives to do so. Hardin, on the other hand, uses the term trustworthiness to refer to a behavioural tendency to cooperate, which in turn is rooted in structural incentives. We agree with Hardin that structural incentives facilitate cooperation, but we think that individuals' intrinsic values are an independent reason for behaving cooperatively. Therefore, we prefer to reserve the term trustworthiness primarily to refer to such non-selfish motives.

The almost exclusive emphasis on structurally induced incentives, rather than the genuine trustworthiness of people, seems to explain Hardin's dismissal of the idea of 'general trust'. General trust, borrowing Yamagishi's (2001: 143) definition, is a baseline expectation of others' trustworthiness.[17] We add, not necessarily reflecting Yamagishi's view, that generalized trust reflects the average level of trustworthiness in a society. If trustworthiness is primarily an effect of networks and ongoing relationships, as Hardin argues, it truly is difficult to conceive of 'general' trust or 'average' level of trustworthiness. Then again, social capital itself is more or less irrelevant beyond the confines of a network. If one acknowledges that among multiple communities of a comparable size, from villages to nations, the average trustworthiness of people may differ, and may affect the way in which collective-action problems are solved across communities, the concept of general trust and the underlying general trustworthiness within particular communities become meaningful.

The potential of modern, market economies and democratic political orders make it imperative for the individuals to deal with others beyond the confines of intimate relations and close networks. The very condition for a successful market economy and democracy is that a vast number of people relate in a trustworthy manner when dealing with others—many of whom do not know one another and cannot incorporate repeated interaction or a network—to achieve collective actions of various scales. Many of these relationships can properly be characterized as a single-shot situation, or one that is repeated a very small number of times. The establishment and maintenance of such social relationships depend on the trustworthiness of people that cannot be explained away by the incentives provided by the structure.

A key aspect of trust is the belief about others' intrinsic motivation—trustworthiness. Putnam's (2000: 136) 'thin trust', or Rahn and Transue's (1998: 545) 'social, or generalized trust', that gives a stranger the 'benefit of doubt', is consistent with our view of trust. Outside the experimental laboratory, however, it is difficult to measure the marginal contribution of trust in this sense in the formation of one's expectation of other's behaviour. It is usually a *configuration* of the intrinsic motivation, the surrounding social structure, and the possibility of rule enforcement that influences an individual's decision whether or not to reciprocate when trusted. A Truster's expectation of Trustee's behaviour also takes into account this configuration of factors. Ahn (2002) proposes to restrict the term trust to beliefs of others' reciprocal behaviour in situations in which incentives alone are not enough to induce such behaviour among selfish individuals. Whether or not to reserve trust only for pure motivation is an issue worthy of debate. We think it is quite awkward, however, to use trust to refer to an expectation of others' cooperative behaviour that is entirely based on the knowledge of the selfish incentives others face.[18]

5. The Implications of Social Capital for Future Research

Similar to the joke about an adult hearing the definition of 'prose', and confessing that he had not known that he had been speaking prose for so long, empirical studies of social capital have been undertaken for a long time by researchers who did not know that their research related to this concept. An important question raised by critics is whether the concept of social capital adds anything important to our discourse as social scientists. Are we just as well off studying trust and trustworthiness, networks, and institutions without linking them in a theory of social capital?

One can only answer this with the social scientist's favourite phrase—it depends. Several reasons exist for the importance of linking the studies of separate forms of social capital together in a broader theory. One has to do with theories of development. For most of the past five decades, scholars and public officials have viewed investment in physical capital—roads, power plants, dams, and factories—as *the* essential missing factor in development. Hence, bilateral and multilateral donors have allocated billions of dollars to supply the 'missing capital', thought to be essential in kick-starting development in the poorer countries of the world (see Gibson, Williams, and Ostrom 2005).

Recognizing that institutions, networks, and trustworthiness are also forms of capital has changed the discourse (and some of the action) for donors in more recent years (Woolcock 1998). World Bank studies show that investment in physical capital makes the most positive difference in societies where effective political and economic institutions exist and the level of trustworthiness and trust is high (Dollar and Easterly 1999; Dollar and Svensson 1998). Viewing institutions as a form of capital has at least two consequences. First, it increases the importance of building strong institutions in the view of some analysts. Second, the time dimension involved in building institutions is emphasized when one sees this effort as building a form of capital.[19]

Further, recognizing that diverse concepts and entities are related to one another in a more general theoretical framework does not reduce the importance of studying the individual parts. Scientific understanding has advanced both by digging into the particulars as well as by linking what has been viewed as unrelated processes and entities into a more general theory. Given the diversity of social dilemmas that exist in all societies, developing better theories of how individuals overcome some of these problems is a major contribution. Why do some people in some locations overcome the temptations involved and garner higher levels of benefits, while others find themselves mired in a lack of cooperation, or worse, in escalating conflicts in which collective action within a group is directed primarily toward harming others?

For many purposes, research on individual forms of capital should be encouraged whether or not the research is self-consciously linked to a broader concept. Entire sub-fields have focused productively on questions related to diverse types of physical infrastructure without always tying back to the general theory of capital formation. Similarly, studies of alternative forms of education are valuable whether or not they tie back to the theory of human capital formation. Since there are multiple forms of all kinds of capital, research related to specific forms of capital can be one way of growing useful knowledge.

To repeat, our position is that social capital is a useful rubric concept when studying reasons for successes and failures in collective action in terms of how trustworthiness, networks, and institutions affect individuals' behaviours and collective outcomes. No separate theory of social capital exists independent from theories of collective action. Theories of collective action, in turn, consist of studying individual motivations, the effects of networks, and formal/informal rules in collective-action situations sometimes separately and sometimes in conjunction with one another. Bringing these separate forms under the concept of social capital is particularly useful in studying successes and failures of collective action in real-world communities of varying scales, because in the real world, it is almost always the case that all three forms of social capital are in operation. At the same time, empirical studies of social capital need to be theoretically informed. An important aspect of conducting theoretically informed empirical research is to pay attention to each form of social capital, to find ways to measure the three forms of social capital objectively, and to establish causalities between the three forms of social capital, trust, and the outcomes of collective action.

What is essential in the conduct of future research related to social capital is that we pay close attention to the meaning of the various components of social capital, especially when doing large-scale statistical studies. While the aggregate measures of generalized trust and other group attributes obtained by surveys have frequently reported positive relationships with aggregate economic performance (Knack and Keefer 1997), these types of studies have received important criticisms related to the problems of identifiability (Durlauf 2002*b*; Manski 2000). One has to be certain that the group attribute that one has chosen as a proxy measure for social capital is not so related to other group-level variables that one cannot sort out whether social capital or some other group variable is the relevant cause of a relationship.

Further, responses to survey questions on trust have not proved to be good predictors of individual cooperative behaviour in experimental dilemma situations. Ahn et al. (2003) conducted a survey using the same questions used repeatedly in the General Social Survey. One month later, they recruited a subset of subjects to undertake a one-shot PD experiment. Using a logit model, and regressing the decision to cooperate on dummy variables for game and player type, as well as the trust measure, they found no systematic significant coefficient for any of the survey responses.

In an ambitious study of the relationship between responses to survey questions and behaviour in experimental settings, Glaeser et al. (2000) developed an extensive instrument that also included the generalized trust questions repeatedly used in national surveys. In their experiments, the standard attitudinal questions did not generally predict subject choices when they were the first player in a trust game. Rather, those questions were more successful in predicting the trustworthiness of the second player. Further, they found that measures of a respondent's past trusting behaviour performed far better than the attitudinal questions in predicting trust and trustworthiness in the experiments. Experimental research will be one of the important methods used more heavily in the future to explore the relationship between various forms of social capital as they impact on behaviour in social dilemma situations (see Ostrom and Walker 2003; Eckel and Wilson 2003; Yamagishi 2003; McCabe and Smith 2003).

While many problems are involved in developing better empirical measures of diverse forms of social capital, encouraging signs indicate that research in this field is progressive in nature. Effective criticism and response is a sign of health. Further, scholars are using multiple theoretical and empirical tools to examine social capital and its consequences (see Habisch 2003; Henning 2002; Annen 2003). One of the strengths of social capital research lies in the diversity of methods and specific subjects addressed using a general framework.

It is now more or less agreed upon that the overarching substantive concern of social capital researchers is the political and economic performances of human communities at different scales. But what provides the common theoretical thread to this diversity? We believe that we have made, in this chapter, a case for the co-development of second-generation collective-action theories and social capital research that pays attention to the cultural as well as the economic aspects that enable a 'society' of two persons, or of much greater size, to cope with the social dilemmas pervading all life.

Notes

1. Earlier versions of this chapter were presented at the EURESCO Conference on 'Social Capital: Interdisciplinary Perspectives,' held in Exeter in September of 2001, and at the 2002 Annual Meeting of the American Political Science Association, Boston, Massachusetts, 29 August–1 September 2002. We are appreciative of the comments of Macartan Humphreys and Dario Castiglione on earlier versions and a general exchange with Margaret Levi and Robert Putnam on many of the issues discussed in this chapter. We are also appreciative of the financial support provided to the Workshop in Political Theory and Policy Analysis by the Earhardt Foundation.
2. See Hardin (1999) for a discussion of Becker's contribution to the study of social capital.
3. We do not mean this as a 'functional' definition whereby social capital exists only if it produces a positive outcome. Durlauf (2002*b*) points out that some definitions of social capital are too functional to be put under empirical scrutiny. We present the causal aspect of our theory in our discussion of the forms of so-

cial capital. Also, the three forms of social capital we discuss below—networks, rules, and trustworthiness—can be measured independently of their effects.

4. Social capital can be analysed using a unified conceptual approach similar to that of Pasotti and Rothstein (2002).
5. Arrow puts forward three aspects implied by the concept of capital: '(a) extension in time; (b) deliberate sacrifice in the present for future benefit; and (c) alienability' (1999: 4).
6. They do not meet the third of Arrow's conditions—they are not alienable. Neither is the US highway network or the National Capital, which are both clearly considered physical capital.
7. We thank Durlauf (2002*b*: 460) for quoting these two views side by side, even though his main purpose is not to contrast them.
8. Also see Fukuyama (1995) in which he makes an explicit argument that culture defined as 'values and habits' of individuals in a society is the critical factor affecting the society's economic performance.
9. Hardin's views are discussed in more detail in section 4.
10. See Ostrom, Gardner, and Walker (1994) for other formal games representing broad sets of social dilemmas that are characteristic of efforts to govern and manage common-pool resources as well as extensive empirical research.
11. Frohlich and Oppenheimer (2000: 91) review their own earlier experiments where they found that self-interested behaviour was the modal observed behaviour, but that 'other-regarding behaviour was far from negligible. Averaging across the test dates, 57.3 of all subjects made some other-regarding choices.'
12. Other cognitive terms such as assessment (Gambetta 1988), expectation, or even knowledge (Hardin 2002) may be used, but knowledge is rather too strong a term. This is because knowledge implies process and factual information, while trust—even when the level of trust is extremely high—is a belief about things that are not yet observed. In this case, of course, the unobserved factor is the Trustee's action. Knowledge of the factors that affect Trustee's not-yet-observed behaviour may serve as the basis for a very strong trust. But still, knowledge and belief are different. Trust is a belief to be verified, and often fails at that.
13. Again, Hardin (2002) provides a succinct and critical guide to several such views.
14. Those two actions may be called by different sets of names such as honouring and betraying (Bohnet, Frey, and Huck 2001) or cooperating and defecting in a standard collective-action terminology.
15. Then of course, using the languages of the trust situation would no longer be appropriate.
16. For an earlier discussion of the habits of the heart and mind, see Tocqueville (1945) and Ostrom (1997).
17. Yamagishi's discussion of trust focuses on its relationship with social intelligence; a higher level of social intelligence allows a person to entertain a correspondingly higher level of trust. This view seems to approach the view that

considers trust as an individual's disposition. What is not clear in Yamagishi's work is whether a person's default expectation of others' trustworthiness also reflects the objective level of trustworthiness of others.

18. The reservation to call such belief, trust, is also echoed by Gambetta (1988: 224), who asks 'Why should we bother about trust at all when cooperation can be generated by other means? One solution is . . . concentrating instead on the manipulation of constraints and interest. . . . '
19. De Soto (2000) provides a powerful analysis of how the failure to build effective property institutions has severely handicapped millions of capable but poor residents and businesses in developing countries from creating vibrant market economies.

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CHAPTER 4

TRUST AS A MORAL VALUE[1]

ERIC M. USLANER

A bond of trust lets us put greater confidence in other people's promises that they mean what they say when they promise to cooperate. The 'standard' account of trust, what Toshio and Midori Yamagishi (1994) call 'knowledge-based trust', presumes that trust depends on information and experience. Claus Offe (1999: 56) states: 'Trust in persons results from past experience with concrete persons.' Russell Hardin (2002: 13) is even more emphatic: 'my trust of you must be grounded in expectations that are particular to you, not merely in generalized expectations.' On this account, the question of trust is strategic and not at all moral (Hardin 2002: 9, 36–40). Indeed, what matters is not trust, but *trustworthiness* (Hardin 2002: 55–6). Do others act in a way that warrants your trust? Are they honest and straightforward? Do they keep their promises?

If Jane trusts Bill to keep his word and if Bill trusts Jane to keep her word, they can reach an agreement to cooperate and thus make both of them better off. If Jane and Bill did not know each other, they would have no basis for trusting each other. Moreover, a single encounter will not suffice to develop trust. Even when they get to know each other better, their mutual trust will be limited to what they know about each other. Jane and Bill may feel comfortable loaning each other a modest amount of money. But Bill won't trust Jane to paint his house and Jane will not trust Bill to repair her roof—since neither has any knowledge of the others' talents in this area (Hardin 1992: 154; Coleman 1990: 109; Misztal 1996: 121 ff.).

The decision to trust another person is essentially *strategic*. Strategic (or knowledge-based) trust presupposes risk (Misztal 1996: 18; Seligman 1997: 63). Jane is at risk if she does not know whether Bill will pay her back. Trust helps us solve collective-action problems by reducing transaction costs—the price of gaining the requisite information that Bill and Jane need to place confidence in each other (Putnam 1993: 172; Offe 1996: 27). It is a recipe for telling us *when* we can tell whether other people are trustworthy (Luhmann 1979: 43).[2]

Beyond the strategic view of trust is another perspective. Moralistic trust is a moral commandment to treat people *as if* they were trustworthy. The central idea behind moralistic trust is the belief that most people share your fundamental moral values (cf. Fukuyama 1995: 153). Moralistic trust is based upon 'some sort of belief in the goodwill of the other' (Seligman 1997: 43; cf. Mansbridge 1999; Yamigishi and Yamigishi 1994: 131).

Strategic trust cannot answer why people get involved in their communities. The linkage with moralistic trust is much more straightforward. Strategic trust can only lead to cooperation among people you have got to know, so it can only resolve problems of trust among small numbers of people. We need moralistic trust to get to civic engagement.

There is a third dimension to trust as well: trust in institutions. Some suggest that faith in institutions is not trust at all, but rather *confidence* (Luhmann 1979), since governmental structures are inanimate and cannot reciprocate your trust. But this is not the most critical distinction: trust in institutions, I argue, is similar to strategic trust. It is based upon how well governments perform—overall, on the economy, in war and peace, and in maintaining law and order in a society. It is based upon experience, as is strategic trust. Like strategic trust, it is *not* the foundation of moralistic trust, although many claim that it is (see Rothstein's and Stolle's chapter in this volume).

In this chapter, I shall examine the varieties of trust, the roots of trust, and the consequences of trust. Trust has become one of the 'hot' topics in the social sciences and there is much dispute about what it is and how to get it.

1. The Varieties of Trust

Moralistic trust is a value that rests on an optimistic view of the world and one's ability to control it. Moralistic trust is not a relationship between specific persons for a particular context. If the grammar of strategic trust is 'A trusts B to do X' (Hardin 1992: 154), the etymology of moralistic trust is simply 'A trusts'.[3]

Moralistic trust is the belief that others share your fundamental moral values and therefore should be treated as you would wish to be treated by them. The values they share may vary from person to person. What matters is a sense of connection with others because you see them as members of your community whose interests must be taken seriously. Other people need not share your views on policy issues or even your ideology. Despite these differences, we see deeper similarities. Francis Fukuyama (1995: 153) states the central idea behind moralistic trust: 'trust arises when a community shares a set of moral values in such a way as to create regular expectations of regular and honest behaviour.' When others share our basic premisses, we face fewer risks when we seek agreement on collective-action problems.

Strategic trust reflects our expectations about how people *will* behave. Moralistic trust is a statement about how people *should* behave. *People ought to trust each other.* The Golden Rule (which is the foundation of moralistic trust) does *not* demand that you do unto others as they do unto you. Instead, you do unto others *as you would have them* do unto you. The Eighth Commandment is *not* 'Thou shalt not steal unless somebody takes something from you.' Nor does it state, 'Thou shalt not steal from Bill.' Moral dictates are absolutes (usually with some exceptions in extreme circumstances).

Strategic trust is not predicated upon a negative view of the world, but rather upon uncertainty. Margaret Levi (1997: 3) argues: 'The opposite of trust is not distrust; it is the lack of trust' (cf. Hardin 1992: 154). But moralistic trust must have positive feelings at one pole and negative ones at the other. It would be strange to have a moral code with good juxtaposed against undecided.

Beyond the distinction between moralistic and strategic trust is the continuum from particularized to generalized trust. Generalized trust is the perception that *most* people are part of your moral community. Its foundation lies in moralistic trust, but it is not the same thing.[4] The difference between generalized and particularized trust is similar, but not identical, to the distinction most commonly associated with Robert Putnam (2000: 22) between 'bonding' and 'bridging' social capital. Particularized trust is faith only in people like yourself, while bonding social capital involves interactions with your own kind. Bonding social capital refers to social connections with people of different backgrounds; generalized trust (unlike bonding social capital) refers to faith in *both your own kind and people who are different from you.*

Generalized trust largely overlaps with moralistic trust. Both are based on the world view that 'most people can be trusted'. Moralistic trust is more of a *command* about what we *should* believe, while generalized trust is a statement of how some encapsulate this dictate—to treat strangers as well as people like yourself. Particularized trust, however, is not identical to strategic trust: it is only faith in people like yourself (the other end of the continuum from generalized trust). It may be based upon experience—certainly faith in people like yourself has roots in dealing with people you know—but mistrust of out-groups seems just as likely to depend upon stereotypes as direct evidence.

While I have pictured particularized and generalized trusts as parts of a continuum, reality is a bit more complex. Generalized trusters don't dislike their own kind. But social identity theorists as well as evolutionary game theorists suggest that generalized trust is exceptional rather than the norm. We are predisposed to trust our own kind more than out-groups (Brewer 1979). David Messick and Marilynn Brewer (1983: 27–8, italics in original) review experiments on cooperation and find that 'members of an in-group tend to perceive other in-group members in generally favourable terms, particularly as being *trustworthy, honest, and cooperative*'. Models from evolutionary game theory suggest that favouring people like ourselves is our best strategy (Hamilton 1964: 21; Masters 1989: 69; Trivers 1971: 48).

Strategic and moralistic types of trust have very different foundations. We *do not* form moralistic trust on experiences—so no amount of social interaction is likely to reshape our values. This is not to say that trust is immutable and that we cannot learn to have faith in others even as adults. But our civic life is not likely to be the place where we change our fundamental values. Most people spend minuscule amounts of time in voluntary organizations and even the most committed activists rarely devote more than a few hours a week to group life—hardly enough time to shape, or reshape, an adult's values (Newton 1997: 579). We are simply unlikely to meet people who are different from ourselves in our civic life. Bowling leagues are composed of people who like to bowl and choral societies are made up of people who like classical music.[5] Now, choral societies and bird-watching groups (among others) will hardly *destroy* trust. And there is nothing wrong with such narrow groups. They bring lots of joy to their members and don't harm anybody. But they are poor candidates for creating social trust.

Strategic trust is fragile, since new experiences can change one's view of another's trustworthiness (Bok 1978: 26; Hardin 1998: 21). Trust, Levi (1998: 81) argues, may be 'hard to construct and easy to destroy' (cf. Dasgupta 1988: 50). Moralistic trust is not. It is stable and resistant to bad experiences until they mount up to a crescendo. Being robbed, divorced, or unemployed has no effect on this type of trust. Trusters *underestimate risks*—and are likely to see their neighbourhoods as safe even when their own neighbours will see it as dangerous. Generalized trust rests on a benign view of the world and of strangers in particular. This positive outlook serves as a psychological safety valve against the fear associated with risk—and it makes it easier for us to engage with people who are different from ourselves (Uslaner 2004*a*).

2. Why and How Trust Matters

We measure trust by the 'standard' survey question: 'Generally speaking, do you believe that most people can be trusted, or can't you be too careful in dealing with people?' This question has been asked in surveys for more than four decades, most notably in the World Values Survey (cross-nationally) and in the General Social Survey and American National Election Studies in the United States, where we have the longest time series on trust.

While the question is controversial (Smith 1997), elsewhere I provide strong support for its use—*and for the claims that it represents both generalized trust (rather than strategic trust or particularized trust) and moralistic trust*. The generalized trust question clustered with two other questions about faith in strangers, but not with close associates and family members in a 1996 survey in the United States. In a 2000 survey in which Americans were asked what the question meant to them, 72 per cent who gave a clear answer interpreted it as reflecting generalized moral sentiments rather than based upon life experience. Trust is *not* the same as trustworthiness. While Putnam (2000) and Stephen Knack (2002) assume that perceptions of trust and honesty measure the same general concept, the individual-level correlation in a 1972 survey in the United States is rather modest (tau-c = .345).

That said, the standard question doesn't work as well everywhere, in all cases. Gabriel Badescu (2003) shows that two alternatives, trust in different ethnic groups and trust in different religions, works better in Romania than the standard question. Yet, elsewhere the standard question performs quite well, and precisely as expected (Uslaner and Badescu 2004*b*).

What, then, drives trust at the micro-level? There is a presumption that trust and civic engagement are intricately connected. Putnam (2000: 137) writes:

> people who trust others are all-around good citizens, and those more engaged in community life are both more trusting and more trustworthy. . . . the critically disengaged believe themselves to be surrounded by miscreants and feel less constrained to be honest themselves. The causal arrows among civic involvement, reciprocity, honesty, and social trust are as tangled as well-tossed spaghetti.

The evidence for any link, much less a reciprocal link (from trust to engagement to trust), is weak. Most forms of civic engagement neither produce nor consume trust. But the more demanding forms, those that really tie us to people unlike ourselves, both depend upon generalized trust *and* reinforce it.

You are not likely to get trust in people you don't know from most of civic life. Dietlind Stolle (1998: 500) argues that the extension of trust from your own group to the larger society occurs through 'mechanisms not yet clearly understood'. An even more sceptical Nancy Rosenblum (1998: 45, 48) calls the purported link 'an airy "liberal expectancy" ' that remains 'unexplained'. Stolle and Rosenblum challenge the idea that we learn to trust people we don't know by observing people we do know.

Estimations from a wide range of surveys in the United States, other Western nations, and the countries making the transition from communism (especially Romania) show that Putnam's 'virtuous circle' is at most a 'virtuous arrow'. Where there are significant relationships between trust and civic engagement, *almost all of the time*, the causal direction goes from trust to civic engagement rather than the other way around. Even these results are based upon a presumption that the causal arrow usually goes *somewhere*. Some social connections might even reinforce particularized rather than generalized trust. Much of the time social networks, both informal and formal, are moral dead ends. They neither consume nor produce trust. They just happen.

This is certainly true of all forms of informal social ties, ranging from playing cards to joining choral societies to going to bars, restaurants, or bingo parlours. Our social ties are with people like ourselves and do not (dare I say 'cannot') lead to trust in strangers. People who play cards have more faith in their neighbours—the people they play with—but not in strangers. There is some evidence that trusters are more likely to talk to more neighbours—but they are *less* likely to see their best friends often and *less* likely to spend a lot of time with parents and relatives. They are no more likely to go to parades, sports events, or art shows often; spend a lot of time with friends from work or simply to hang out with friends in a public place; visit chat rooms on the World Wide Web a lot, or even to play lots of team sports. People who trust folk they know—their neighbours—*are* more likely to go to parades and join sports teams frequently. But overall, the major reason why people socialize a lot is that they have many friends, not that they trust strangers. Misanthropes have friends too. Nor is there *any* evidence that these activities *produce* generalized trust.

Joining civic groups, for the most part, is not linked to trust either. Of twenty types of civic groups included in the 1996 American National Election Study, my analysis showed that: (1) no group membership *led to trust*; and (2) trust only had significant effects on four types of group membership. Generalized trusters are more likely to join business and cultural organizations, but *less likely to belong to ethnic and church groups*. And this makes sense: ethnic associations reinforce in-group ties, as do some religious ties. And this holds for Central and Eastern Europe as much as it does for the West.

Dag Wollebaek and Per Selle (2003) undermine the claim that people learn to trust strangers by interacting with fellow group members. In their surveys of Norway, *passive group members*—the folk who write cheques to organizations and get newsletters and position statements in return—are more trusting than non-members and *active members who attend meetings of the groups*. Passive members gain a greater sense of community than people who have face-to-face interactions. Putnam's argument that you need active participation to develop trust comes under direct assault by these results. The recipe for promoting trust through civic engagement seems to be to write a cheque and stay at home—or to go bowling alone.

There are also very weak (and insignificant) ties between trust and political engagement. And this is not surprising either. Democratic politics is often (though not always) confrontational (although we must agree to obey the 'rules of the game'). Elections are largely about showing why one side is right and the other side is wrong—and contemporary democratic polities seem low on civility and high on sharp rhetoric. Democratic politics thrives on mistrust

(Warren 1996). Trust in strangers brings forth a very different disposition, a desire to cooperate and work with others.

Trust matters for the type of civic activities that tap this sentiment of reaching out to people who are different from ourselves—and to helping them. Where faith in others matters most is in volunteering and giving to charity. And not just for any type of volunteering or giving to charity. If I volunteer at my son's school or give to my house of worship (or other religious cause), I am strengthening *in-group* ties. Christian fundamentalists (a far more important group in the United States than in Europe) are very active volunteers, but *only* for organizations tied to their faith (Uslaner 2001; Wuthnow 1999). They do not reach out to people who think differently because religious fundamentalists (of any faith) do not see outsiders as part of their moral community. Religious volunteering and giving to charity is the mark of particularized trust. Giving time or money to *secular* causes, where we are more likely to help people who are different from ourselves, is the hallmark of generalized trusters.

3. The Roots of Trust

If generalized trust does not depend upon participation in civic groups, what are its roots? I shall argue that its roots at the micro-level lie in a sense optimism and control—the belief that the world is a good place and is going to get better and that you can help make it better—as well as education, group identity, family background, and early experiences in life. Major events in a society also can shape individual-level trust. At the macro-level, the most important determinant of trust is the level of economic inequality in a society. But so are a country's cultural heritage, its history of war and peace, and its level of diversity. *What does not matter in most estimations are trust in government or the form of government.*

Virtually every study of generalized trust, in every setting, has found that education is a powerful predictor of trust. Some see education as a form of social status, similar to income. Higher status people have more trust (Putnam 1995; Patterson 1999). Yet income does not show up as significant in many models—and this suggests a different role for education. Education, especially through university, broadens one's perspective on the world—and brings one into contact with a wider variety of people.

While generalized trusters rate their own kind highly, they are less committed to their in-groups than particularized trusters. Thus, people who abjure contact with outsiders, such as religious fundamentalists, will be less trusting. Minority groups that have long suffered discrimination, such as African Americans, will quite naturally have lower levels of generalized trust (Brehm and Rahn 1997; Putnam 1995). African Americans have high *in-group* trust but low trust of people in general (whites). Yet, this mistrust *does not depend upon individual experiences such as discrimination or success in life*. Neither predicts trust for African Americans at the individual level. Rather, the effects of discrimination are more nefarious: success in life does not solve the *collective discrimination* African Americans face.

While individual-level experiences play a small role in generating trust, collective memory of big events in society can be critical—much as voters pay more attention to the state of the national economy than to their own economic situation (Kinder and Kiewiet 1979). Labour peace played a large role in building trust in Sweden (Rothstein 2001), while the Vietnam War destroyed much social trust in the United States, even as the civil rights movement was healing rifts and building trust.

Perhaps the most critical determinant of trust, especially in young people, is family life. If you grew up in a trusting family and had good relations with your parents, you will most likely be a trusting person as an adult. High school students in the United States and their parents were interviewed in 1965 and, when the students were adults in 1982, 72 per cent of the students gave the same answer to the question, 'Generally speaking, do you believe that most people can be trusted, or can't you be too careful in dealing with people' in both surveys, eighteen years apart. How trusting *your parents were in 1965* was one of the most important factors leading to trust as an adult. Good relations with your parents when you were in high school made you more likely to be trusting as an adult. And if you had a friend of an opposite race when you were in high school, you will be more likely to trust strangers when you become an adult (cf. Stolle and Hooghe 2002). But having a friend of an opposite race makes no difference to adults. Mistrusting adults will not generalize from such friendships.

In both the West and the East, the most optimistic people find trusting strangers to be less risky. The belief that you can help make the world a better place promotes the sense of efficacy necessary to cope with any perceptions of risk. Many people in transition states such as Romania believe that they cannot succeed in life unless they have connections, engage in corruption, or both (Uslaner and Badescu 2004*a*). Optimism and control are the strongest determinants of trust across many different cultures and a wide range of surveys.

What drives in-group (particularized) trust? Particularized trust is most prevalent among people who: are more pessimistic about the future and their ability to determine their own fate; fear being the victims of crime; are loners (with small support networks); have less education; are religious fundamentalists; who did not have warm relations with their parents when they were young; whose parents were not generalized trusters—and who warned them not to trust others; and who are members of minority groups. Stolle (1998) shows that membership in voluntary associations can also promote in-group trust over time.

In their chapter in this volume, Rothstein and Stolle criticize what they call the 'attitudinal model'. '[T]he fact that attitudes cause other attitudes is not very illuminating,' they claim. And so they seek an institutional account (see below). Yet, optimism and control are *not* the same as trust—and I show that they are rational responses to real-world economics: optimism and control are greatest when economic inequality is low. And they both fade when there is a great deal of high-level corruption, as in Romania.

What drives strategic trust? Experience. This is the heart of arguments of Hardin, Offe, Levi, Gambetta, and many others. Trust is 'essentially rational expectations grounded in the likely interests of the trusted' (Hardin 2002: 6). We can't evaluate strategic trust through surveys, since it is situation-specific: A trusts B to do X. Bill may trust Jane to paint his house, but not to perform brain surgery on him. And this judgement casts no aspersions on Jane—but neither does it tell us anything *general* about strategic trust.

4. Trust and the State

Critics of the 'attitudinal model' argue that trust must have some foundation beyond other social psychological attitudes such as optimism and control. My argument, they say, has a certain circularity—one attitude causes another and nowhere is there anything concrete. So many argue that political institutions, especially the state, play a key role in shaping trust. Levi (1998: 87) holds that '[t]he trustworthiness of the state influences its capacity to generate interpersonal trust . . .'. Rothstein (2001: 491–2) elaborates on this linkage:

> … if you think … that these … institutions [of law and order] do what they are supposed to do in a fair and effective manner, then you also have reason to believe that the chance people of getting away with such treacherous behavior is small. If so, you will believe that people will have very good reason to refrain from acting in a treacherous manner, and you will therefore believe that 'most people can be trusted.'

A strong legal system will reduce transaction costs, making trust less risky. The more experience people have with compliance, the more likely they are to have confidence in others' good will (Brehm and Rahn 1997: 1008; Levi 1998; Offe 1999).

Now this argument makes a lot of sense and it reflects the long-standing view, that trust in people was just another form of faith in human nature and in politics (Almond and Verba 1963: 285; Lane 1959: 163–5; Rosenberg 1956: 694). Putnam's initial statement of his own thesis about civic life in Italy mixed indicators of social connectedness, civic engagement, and effective government institutions. More recently, John Brehm and Wendy Rahn (1997) argued that confidence in government is one of the most powerful determinants of generalized trust.

Yet, this picture of the civic citizen and the capacity of the state to produce it is, like George Bernard Shaw's view of second marriages, 'the triumph of hope over experience'. At the aggregate level, confidence in government and generalized trust are related in some studies (Newton's chapter in this volume) but not in others (Rothstein's and Stolle's chapter). Yet there is little support for such a linkage at the individual level. Across a wide range of countries—from North America to Western Europe to Central and Eastern Europe to Latin America and Asia, linkages between the two types of trust are generally rather weak (cf. Newton's contribution to this volume; Rothstein 2001).

Not even the simplest form of institutional structure—democracy—seems to matter for trust. Ronald Inglehart (1997: chapter 6) argues that democratic governance depends upon trust, but Edward Muller and Mitchell Seligson (1994) hold that democracy promotes trust. Neither is correct. Some democracies have lots of trusting citizens, others have relatively few. Authoritarian states *can* destroy trust—but you can't build trust by changing institutions. It is a whole lot easier to 'make democracy' than to 'make democracy work', in Putnam's (1993) felicitous words.

In countries with no legacy of communist rule, the mean proportion of trusters in highly democratic regimes is .411, compared to .217 in the formerly communist regimes. (I shall also refer to countries with no legacy of communist rule as 'democracies' for short, fully recognizing that many of these nations have not always respected the rights and freedoms associated with democratic regimes.) Democracies are all over the place in trust, ranging from .03 (Brazil) to .65 (Norway). Formerly communist regimes also vary in trust, but only from .06 to .34. Half of all democracies have more than 34 per cent trusters. The formerly communist states of Eastern and Central Europe actually became *less trusting* as they became more democratic from 1990 to 1995.[6] An Indian journalist commented on the sharp cleavages that led to a cycle of unstable coalitions, none of which could form a government: 'We have the hardware of democracy, but not the software, and that can't be borrowed or mimicked' (Constable 1999: A19).

So, whither the state and trust? Rothstein and Stolle (in this volume; and Rothstein 2001) suggest that most political institutions cannot create trust. They are often confrontational, while generalized trust leads to conciliation and cooperation. Legal institutions, on the other hand, are presumably impartial and can induce trust by protecting people against errant deeds by folk without a sense of social conscience. Only the courts and the police among governmental institutions have the 'power' to create trust.

This is an ingenious argument and there is considerable support for it. Corrupt governments do seem to destroy trust—though only 'high-level' corruption among politicians and business executives, rather than street-level corruption, seems to shape trust (Uslaner and Badescu 2004*b*). When people perceive government officials to be corrupt—and especially when they see the courts as unfair—they lose confidence that the future will look better the past—and especially that they are the masters of their own fate.

But the causal link is not so clear. Can we increase trust by creating a stronger legal system? There is strong evidence that countries with higher levels of trust have stronger legal systems and less corruption (LaPorta et al. 1997: 335–6; Uslaner 2004*b*). There is a moderate correlation between them for countries without a legacy of communism and a powerful link from trust to approval of the legal system in a simultaneous equation model. Yet the direction of causality seems to go only one way, from trust to faith in the law. The link from confidence in the legal system to trust is insignificant with an incorrect sign.

The problem is how to get strong legal institutions. In a country with weak courts and high levels of corruption, putting public officials on trial for misdeeds will be of little help. Courts can save us from rascals only if there are few rascals (cf. Sitkin and Roth 1993). Law abiding citizens, not rogue outlaws, create effective legal systems. Statutes alone won't create generalized trust. Looking to lawfulness as a guide to trust may miss the mark—it risks conflating Sweden, where people obey the law, so it seems, because they share a sense of social solidarity, with Singapore, where people obey the law because they are afraid to drop a piece of chewing gum on the pavement. Coercion, Gambetta (1988: 220) argues, 'falls short of being an adequate alternative to trust.... It introduces an asymmetry which disposes of *mutual* trust and promotes instead power and resentment' (cf. Baier 1986: 234; Knight 2001: 365). Generalized trust does *not* depend upon contracts. Indeed, trusting others is sometimes said to be a happy substitute for monitoring their standing (Putnam 2000: 135).

5. The Big (Macro) Picture: Generating Trust

Is there any role for government? Yes, there is. But it is governmental policy, not governmental structure that matters most. Over time in the United States, across the American states, and across countries,[7] there is a single factor that proves critical to developing trust: the level of economic inequality. In Figure 4.1, I present a graph of the aggregate level of trust by the level of economic inequality, the Gini index. Clearly, there is a negative relationship between trust and economic inequality.

Equality promotes trust in two ways. First, a more equitable distribution of income makes people with less more optimistic that they too can share in society's bounty. And optimism is the basis of trust. Second, a more equitable distribution of income creates stronger bonds between different groups in society. When some people have far more than others, neither those at the top nor those at the bottom are likely to consider the other as part of their 'moral community'. They do not perceive a shared fate with others in society. Hence, they are less likely to trust people who may be different from themselves.

The link between trust and economic inequality helps to solve a puzzling result, the generally weak relationships between income and generalized trust. Generalized trust does not depend on your personal experiences, including how well off you are. But *collective* experiences—including, but not limited to, the distribution of resources in society—play a critical role in shaping trust.

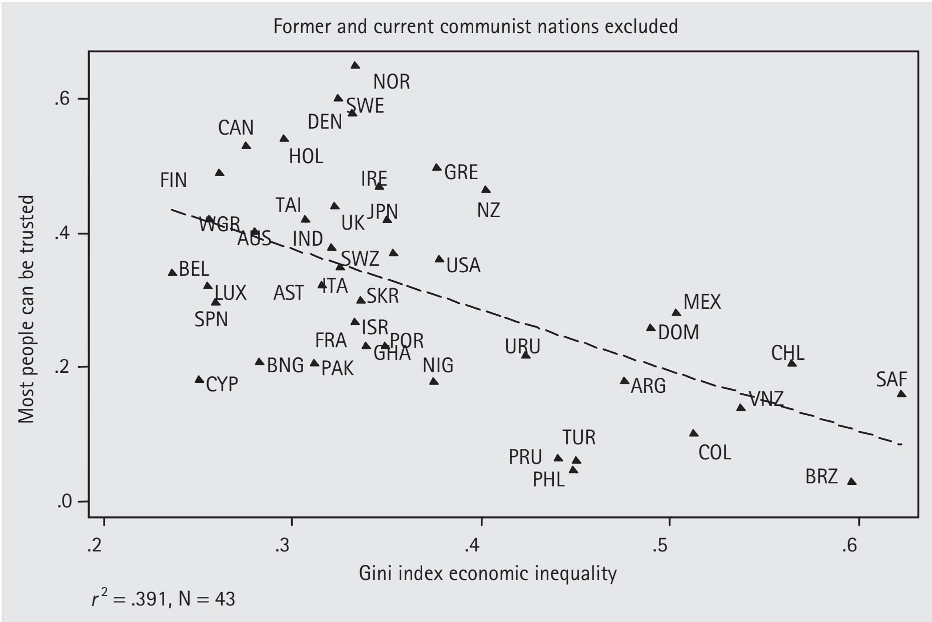

Fig. 4.1. Trust in people and economic inequality

Government policies *can* influence the level of economic inequality in a country. Countries with high levels of trust spend more on education and on redistributing more from the rich to the poor. They also are more likely to have universalistic rather than means-tested welfare programmes (Rothstein 2002; Rothstein and Uslaner 2005). Means-tested programmes stigmatize the poor—and lead to less generalized trust. So it is within the power of government to create trust—perhaps not structurally, but through public policies.

Alas, there is little evidence that governments do, or perhaps can, fight inequality. Inequality is sticky. From 1980 to 1990, inequality was largely constant across most countries. For the forty-two countries for which we have data the r^2 between inequality in the two periods is .676. The greatest declines in inequality occurred in the former communist countries—but each of them experienced an increase, mostly very sharp, in the next decade. For the twenty-two countries for which have data in 1981 and 1990, trust was even more set in stone: $r^2 = .81$. The problem is that spending on the poor (with universalistic welfare programmes) not only creates trust, but to a considerable extent depends upon it. The equal and morally rich become more equal and more altruistic. In poorer countries, the rich and the poor do not perceive a common fate, so trust will be low, conflict high, and inequalities will persist.

Trust also reflects a society's culture and the opportunities for people to interact with each other. Generalized trust reflects individualistic values rather than collective identities. Countries with largely Protestant populations are more individualistic—Catholic and Muslim countries are more collectivist—and they have higher levels of generalized trust.

Knack and Keefer (1997) argue that societies with a more heterogeneous population have lower levels of trust. Diversity leads to fewer common bonds, they argue, and sharper cleavages. Alberto Alesina and Eliana LaFerrara (2001) find that individuals living in more diverse communities are less trusting. Yet, Marschall and Stolle (2004) find precisely the opposite. Diversity brings people into contact with people unlike themselves—and creates more opportunity for generalized trust.

Which view is correct? There are good arguments for both positions and the claim that diversity breeds tolerance is hotly contested within political science, sociology, and psychology. Others have failed to find relationships between ethnic heterogeneity and trust at the aggregate level as Knack and Keefer did. However, *there is one key aspect of diversity that does shape generalized trust: the level of residential segregation in a state*. Using data from the Minorities at Risk (MAR) project of the Center for International Development and Conflict Management at University of Maryland, I estimated the geographical isolation of major minority groups within a wide range of countries.[8] The MAR project created a trichotomous index for each major minority group in a country and I aggregated the scores across countries. This is an approximation, to be sure, but it is the best available measure of geographical separation. As we might expect, countries where minorities are most geographically isolated have the lowest levels of generalized trust (see Figure 4.2). Geographical isolation may breed in-group identity at the expense of the larger society. Geographic separation may also lead to greater political organization by minority grou—ps, which can establish their own power bases as their share of the citizenry grows.

There is thus clear support for the argument that population homogeneity leads to *less* generalized trust—but this is not the same as simple ethnic diversity. Ethnic diversity, as measured by the standard fractionalization indices (see Knack and Keefer 1997), *is not the same as ethnic conflict—or ethnic separation.* If high degrees of trust lead to a greater reconciliation among people of differing backgrounds—and if geographical separation leads to less trust, then the relative isolation of Greek and Turkish Cypriots leads to pessimism for longer-term peace. Israeli Jews are relatively highly separated from Israeli

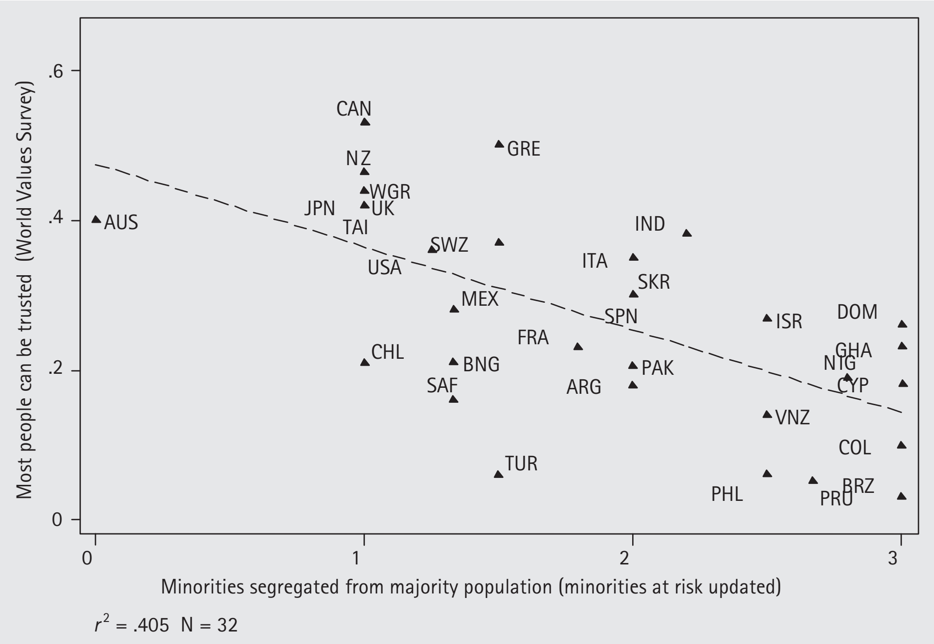

Fig. 4.2. Generalized trust and minority segregation

Arabs and Palestinians, though less so than Cypriots, but the relative proximity of South Africans may lead to greater optimism.

6. Why should We Care about Trust?

Generalized trust matters because it helps connect us to people who are different from ourselves. Generalized trusters are tolerant of immigrants and minorities and support equal rights for women and gays. Yet, they also believe in a common core of values and hold that ethnic politicians should *not* represent only their own kind. This trust of strangers promotes the altruistic values that lead people with faith in others to volunteer for good causes and to donate to charity, in each case helping people who are likely different from themselves. Trusting societies have more effective governments, higher growth rates, less corruption and crime, and are more likely to redistribute resources from the rich to the poor (LaPorta et al. 1998).

Not all trust is the same and not all civic activity is the same. Some forms of civic engagement may lead to more in-group trust and *less* trust in people who are different from ourselves (cf. Berman 1997; and Roßteutscher 2002). Trusting your own kind may be part of a more general positive syndrome of faith in others or it may inhibit generalized faith in others. Trusting people you know does *not* lead to trust in strangers. Loving my wife and son will not make me better disposed toward the men who haul away my garbage.[9] We need strategic trust to make do in our daily lives: should I trust the contractor who proposes to rewire my house? How do I find an honest mechanic? In earlier days, when generalized trust was scarce, particularized trust (in people of your own background) helped cement business deals in a world where any sort of trust seemed highly risky (Greif 1993). Yet, the benefits of these types of trust are limited (Woolcock 1998). The big payoffs come from generalized trust. Faith in strangers is a matter of faith, not based on experience. It is a risky gamble, asking a lot of us, but promising much more in return.

Notes

1. This article summarizes arguments in Uslaner (2002). I gratefully acknowledge the support of the General Research Board of the University of Maryland—College Park and the Everett McKinley Dirksen Center for the Study of Congressional Leadership. Most of the data discussed here were obtained from the Inter-University Consortium for Political and Social Research, which is absolved from any responsibility for my claims. See Uslaner (2002) for a list of my other obligations, but here I single out Dario Castiglione, Jan van Deth, Mark Lichbach, Dietlind Stolle, Bo Rothstein, E. Spencer Wellhofer, and Sigrid Roßteutscher.
2. The term 'strategic trust' is mine. Most of the people I cite would likely find the terminology congenial. Hardin (1992: 163) emphatically holds that 'there is little sense in the claim of some that trust is a more or less consciously chosen policy . . . '. Trust based on experience can be strategic even if we do not make a deliberate choice to trust on specific occasions.
3. A more formal statement would be:

$$\forall \text{ B and } \forall \text{ X: A trusts B to do X.}$$

   As I note below, it is foolish to trust all of the people all of the time. Moralistic trust doesn't demand that. But it does presume that we trust most people under most circumstances (where most is widely defined).
4. I am indebted to Jane Mansbridge for emphasizing this distinction.
5. This result comes from an analysis of the 1993 General Social Survey in the United States, where performing music is best predicted by liking classical

music—as well as looking for opportunities to meet others with similar preferences—other predictors are age (young) and income (high).

6. These data come from the eight formerly communist countries surveyed by the World Study in 1990 and the mid-1990s: Belarus, East Germany, Estonia, Latvia, Lithuania, Poland, Russia, and Slovenia and the Freedom House freedom scores. The eight formerly communist countries became 5 per cent *less* trusting, but the average freedom score increased from a 'not free' 11 in 1988 to 4.75 in 1998, comparable to India, Chile, the Dominican Republic, the Philippines, and Venezuela.
7. I restrict the analysis to countries without a legacy of communism, because: (1) economic inequality was not dictated by the same market forces as in other countries; (2) the Gini indices of economic inequality are of dubious reliability in some countries; and (3) the survey results are also questionable in some countries. For the evidence on the American states, see Uslaner and Brown (2005).
8. The data are available for download at <http://www.cidcm.umd.edu/inscr/mar/data.asp>, accessed 30 July 2006.
9. In Uslaner (2002: chapter 5), I show that there is no statistical linkage between trust in people you know and trust in strangers.

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CHAPTER 5

THE NATURE AND LOGIC OF BAD SOCIAL CAPITAL

MARK E. WARREN

A number of years ago, one of Robert Putnam's critics made the catchy observation that Timothy McVeigh and Terry McNichol bowled together. In so doing, they created the network upon which McVeigh was later able to capitalize for help in making the bomb he set off in front of the Alfred P. Murrah Federal Building in Oklahoma City. Putnam incorporated the point into *Bowling Alone*, writing that 'Networks and associated norms of reciprocity are generally good for those inside the network, but the external effects of social capital are by no means always positive.' Social capital, noted Putnam, is present in 'urban gangs, NIMBY ("not in my backyard") movements, and power elites often exploit social capital to achieve ends that are antisocial from a wider perspective' (2000: 21–2).

Although it is now widely acknowledged that social capital can produce social bads, research has focused almost exclusively on social goods (Portes 1998: 15–18; Durlauf and Fafchamps 2005). These goods appear to be considerable, and include democracy, education, prosperity, safety, health, and even happiness. But the social bads sometimes facilitated by social capital can also be considerable, including terrorism, organized crime, clientelism, economic inefficiencies, rigid communities that stifle innovation and are dysfunctional within broader societies, ethnic rivalries, and unjust distributions of resources.

But if social capital both enables social goods as well as social bads, we should want the concept to include these normatively important distinctions, which in turn should guide our attention to the phenomena that produce better or worse consequences. In this chapter I hope to provide the concept of social capital with just a bit of this critical capacity. In the first section, I suggest that the important distinctions already exist within the concept of social capital, but they remain unexploited in the literature. Capital is defined by resource investments that return goods to individuals in excess of their investment. But because most uses of the social capital concept assume that the social consequences of individual investments in social relations are good—the externalities of social capital relationships are positive—the question of the relationship between individual returns and social goods remains undeveloped. But if we focus on the question of externalities, we can distinguish between better and worse consequences of social capital (section 2). In section 3, I illustrate the problems with a brief look at three countries, Colombia, Italy, and the United States, in which social capital appears to support 'systems of negative externalities' in the areas of organized crime, political corruption, and political inequality respectively. I then ask (section 4) whether we can distinguish good social capital from bad. I argue that we can. In section 5, I develop a distinction between sources and functions of social capital, which I then elaborate in sections 6 to 11 by developing two distinctions of source (in trust and reciprocity), and three distinctions of function (having to do with political, economic, and cultural background conditions). These functional distinctions suggest that broader distributions of more kinds of resources—what I simply call 'more democracy'—enable those who are subject to negative externalities both to voice their judgements as to what is 'good' and 'bad', and to resist the impositions of bads. Thus, while a society rich in social capital is almost certainly good for democracy, more democracy almost certainly limits the potentially bad functions of social capital.

1. The Concept of Social Capital

If by *social capital* we simply mean that participation in social groups and networks can have positive consequences for individuals and society, there is nothing very new about the idea. As critics have pointed out, this notion was already developed in the writings of Marx, Durkheim, Simmel, and Weber, to name just a few (Portes 1998: 3–6). Here, however, I will follow the lineage originated by Pierre Bourdieu (1985), which derives the concept of social capital by analogy to *economic* capital—investments in productive objects—and *human* capital—investments in productive capacities of the self such as education. By analogy, social capital refers to productive investments in social relations; a concept Bourdieu used to identify differential class advantages owing to social connections (Arneil 2006: chapter 1). Social relations can be viewed as social *capital* when they function as an 'investment' on which the participants gain a return by virtue of their membership in a social network. Thus, James Coleman, the first to develop the concept using the language of economists within sociology, writes that 'social-structural resources' can be conceived as 'a capital asset for the individual, that is, as social capital. Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: they all consist of some aspects of a social structure, and they all facilitate certain actions of individuals who are within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence' (1990: 302).

Nan Lin similarly defines social capital as 'investment in social relations with expected returns in the marketplace'. 'In this approach, capital is seen as a social asset by virtue of actors' connections and access to resources in the network or groups of which they are members' (2001: 18, emphasis removed). The returns on investment need not, of course, be monetary: they can involve anything of value, such as recognition, prestige, education, enhanced capacities for self-rule, or health. The reasons social capital works to provide these kinds of returns is that social relations can provide the antecedents of cooperation, through which individuals' resources are complemented, combined, and multiplied to mutual benefit. On Lin's account, these antecedents include (*a*) information; (*b*) influence leveraged through intermediaries; (*c*) certification of trustworthiness; and (*d*) reinforcements for promises and commitments (Lin 2001: 18–19).

Following these approaches, here I conceive of social capital as *individual investments in social relationships that have the consequences, whether or not intended, of enabling collective actions which return goods in excess of those the individual might achieve by acting alone.*

There are a number of features of this approach that require some elaboration. First, I am retaining the economic language embedded in the capital concept for a reason that may seem quite unfamiliar to many social scientists and political theorists: the *critical* element of the concept follows from the fact that it focuses on returns to *individuals*, which indirectly frames the problem of the question of *externalities*—that is, good and bad consequences for those *not* included in the social relations functioning as social capital. The critical potential of the concept—originally identified by Bourdieu, resides in its economic rather than sociological origins. It does not follow, however, that 'social capital' identifies social relations that are 'like' economic capital. In particular, social relations which function as social capital need not be intended to produce returns. The concept of 'investing' in social relations need be no more instrumental a concept than 'working' on relations (cf. Arneil 2006: chapter 7). Social capital is, probably, most often a consequence of pursuing social relations for their own sake. So despite the economic inspiration of the concept, there is no presumption that individuals act as rational maximizers.

Second, social capital should be distinguished from individual dispositions of trust and allegiance to norms of trust and reciprocity. They are not themselves 'social capital' because they are individual dispositions rather than social relationships. But they are likely precursors of social capital (I use the term 'sources' below), and, over time, also likely consequences. Although this chapter is not about the empirical study of social capital, these distinctions are necessary to identify the phenomenon in ways that support causal inference.

Third, and less obviously, the concept of social capital is *functional*.[1] Functional concepts have an irreducible normative dimension because they serve to define particular social relations as worth attention from the perspective of the purposes that define the function. As Coleman notes (1990: 304–5), the social capital concept selects certain social relations as significant from the perspective of the benefits of individual investments in social relations. It follows that the concept identifies particular kinds of social relations as normatively significant owing to their good (or bad) consequences. Thus, I do not follow Dasgupta's lead in defining social capital as '*interpersonal networks*, nothing more'. Dasgupta argues that the 'advantage of such a lean notion is that it does not prejudge the asset's quality. Just as a building can remain unused and a wetland can be misused, so can a network remain inactive or be put to use in socially destructive ways. There is nothing good or bad about interpersonal networks; other things being equal, it is the *use* to which a network is put by members, that determines its quality' (2005: 10). In contrast, I shall view social capital as that *subset* of interpersonal networks which function to produce returns to individuals within these networks. The reason, as should become clear below, is that when the concept is expanded to include all interpersonal networks, it loses its critical edge. Just as we would say that a building is not being used *as capital* if it goes unused, the notion of 'social capital' identifies those particular kinds of interpersonal relations that are 'productive' for those who invest in them.

Fourth, it follows that social capital is not an entity that can be defined as a variable for purposes of causal inference, although its antecedents may be identified as variables, including individual dispositions, capacities, and relationships. Individuals may, of course, anticipate functions, in which case anticipated outcomes operate as causes.

Fifth, *anticipated returns* also operate as antecedent incentives, in the sense that individuals who fail to be trustworthy or to engage in reciprocity may also fail to benefit from cooperation. But, again, it is not a condition of the presence of social capital that individuals consciously 'invest' for social relations for the purposes of producing individual returns.

Sixth, as I shall use the concept here, I define social capital as producing *positive* returns to individuals *within* social networks, even though those outside these networks may be subject to negative externalities. Portes (1998: 15–18; see also Dasgupta 2005), in contrast, argues that social capital can produce negative consequences for social networks—in particular, investments in social relations may create excess demands on successful members, such that their creative initiatives are likely to fail. Likewise, closed systems of social norms may so infringe on privacy and personal autonomy that young and energetic members leave the network, sapping it of its creativity. In such cases, I shall suggest, investments in social networks have negative consequences, such that the investments *fail* to function as social capital, even though they are producing other group effects. That is, the definition should not be stretched to include all 'returns'—negative and positive—of social network 'investment', since doing so will fail to distinguish social capital from any general analysis of the negative consequences of social network membership. As I use the concept here, its critical potential resides in the contract between the positive consequences of social investments for

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group members and the negative consequences for those who are not group members.

Thus, for example, social capital should be distinguished from situations in which the social norms become a cause of social traps, situations in which social relationships reinforce downward levelling norms (Bowles, Durlauf, and Hoff 2006; Rothstein 2005). For example, as Portes notes,

> [T]here are situations in which group solidarity is cemented by a common experience of adversity and opposition to mainstream society. In these instances, individual success stories undermine group cohesion because the latter is precisely grounded on the alleged impossibility of such occurrences. The result is downward levelling norms that operate to keep members of a downtrodden group in place and force the more ambitious to escape from it. . . . In each instance, the emergence of downward levelling norms has been preceded by lengthy periods, often lasting generations, in which the mobility of a particular group has been blocked by outside discrimination. That historical experience underlines the emergence of an oppositional stance toward the mainstream and a solidarity grounded in a common experience of subordination. Once in place, however, this normative outlook has the effect of helping perpetuate the very situation it decries. . . . Whereas bounded solidarity and trust provide the sources for socioeconomic ascent and entrepreneurial development among some groups, among others they have exactly the opposite effect. (Portes 1998: 17)

Although Portes views these forms of norms of social control as a negative form of social capital (see also Dasgupta 2005: 17–19), here I follow Rothstein (2005) in labelling such situations as *lacking* in social capital. The critical point of the social capital concept is to identify relationships that generate goods for participants, and to distinguish these from the many kinds of social relationships that function in ways that are bad for individuals—not just social traps, but also relationships of domination and exploitation.

2. Social Bads of Social Capital

The social relationships I focus on here, then, are forms of social capital that produce negative externalities—defined as costs, burdens, and other bads—borne by those not part of the social network that generates social capital. The notion of economic capital already includes this critical insight: money will not be invested unless investors can capture the returns. As is well known, this is why markets cannot produce public goods, and why every investor in a productive activity has incentives to shunt costs off onto others who do not benefit from the activity. Every cost externalized onto others increases returns captured by the investor. What is good for the capitalist can be bad for those not in a position to capture the proceeds of investments—workers whose wages do not compensate their contributions and who may suffer injuries, shortened lifespans, and diminished capacities, or a public that picks up the costs of educating workers, injury, childcare, old age, pollution, other consequences of profit-seeking activity.

Social capital has, structurally speaking, these same characteristics. There are, of course, important ways in which market-based concepts and society-based concepts are at odds: markets are mediated by money, and social relations are mediated by social norms, language, and other subtleties of interpersonal interactions. But because the market-based concept highlights returns on investment that can be captured by individuals, it suggests that social activities, like market activities, might also produce negative externalities. While most definitions are explicit that it is *individuals* who benefit from investments in social capital, the question of externalities itself is rarely addressed (cf. Bourdieu 1985). When the question is addressed, externalities are often assumed to be good (Dasgupta 2005; Durlauf and Fafchamps 2005). Coleman, for example, sees social capital itself as a positive externality of activities undertaken for other purposes. Trust, reciprocity, enforceable norms, and other sources of social capital are, in most cases, consequences of associations formed around goods that can be captured by members proportionate to their investments. Indeed, following from Coleman's rational choice framework, it is because these externalities are like public goods (that is, open to free riders) that social capital is mostly produced indirectly, and tends to suffer from 'under investment' (Coleman 1990: 312–13). So for Coleman while social capital is itself a positive group externality of individual social relations, from a conceptual perspective the externalities of social capital are not an issue.

Putnam is more careful to frame the problem of externalities, noting that not 'all the costs and benefits of social connections accrue to the person making the contact'. Social capital can 'be simultaneously a "private good" and a "public good". Some of the benefit from an investment in social capital goes to bystanders, while some of the investment redounds to the immediate interest of the person making the investment' (Putnam 2000: 20). For example, a 'well-connected individual in a poorly connected society is not as productive as a well-connected individual in a well-connected society.

And even a poorly connected individual may derive some of the spill over benefits from living in a well-connected community. If the crime rate in my neighbourhood is lowered by neighbours keeping an eye on one another's homes, I benefit even if I personally spend most of my time on the road and never even nod to another resident on the street' (Putnam 2000: 20). These are positive externalities of social capital for those outside networks.

But there might just as well be negative externalities for those outside social capital-producing networks, an effect we should expect especially in societies whose dense associative structures serve as crucibles of social capital. Freedom of association also implies the freedom to exclude, a freedom that can count as an important contribution to individuals' abilities to craft their identities and to choose with whom they associate (Bowles and Gintis 2002: 428; Dasgupta 2005: 17). From a social perspective, exclusion enables pluralism (Rosenblum 1998). But when exclusion combines with resources that others need, freedom of association can reinforce skewed distributions of economic power, undermine democracy, and enable conspiracy and corruption (Warren 2001: 220–3; Arneil 2006: chapter 2). 'Two centuries ago', Portes notes, 'Adam Smith . . . complained that meetings of merchants inevitably ended up as a conspiracy against the public. The public, of course, are all those excluded from the networks and mutual knowledge linking the colluding groups. Substitute for 'merchants' white building contractors, ethnic union bosses, or immigrant entrepreneurs, and the contemporary relevance of Smith's point becomes evident' (Portes 1998: 15–16).

Indeed, we should expect that any society with cleavages of class, race, ethnicity, religion, and other lines of fracture will potentially suffer from group-specific social capital. A neighbourhood activist, for example, may work to retain single-family zoning laws in order to preserve the quality of life in her neighbourhood, and in so doing produce a neighbourhood solidarity sufficient to resist higher density housing. But the likely effect on the broader society will be to reduce the supply of affordable housing and to shift costs onto newcomers, younger people, and renters. Members of an elite club may benefit from the trust that develops within, which they can then use to enhance their business opportunities. The broad effect of this social capital, however, is to reinforce the hold of well-networked elites over business resources. In short, the externalities of individual investments in social relations can be positive for the participants, but negative for the broader society.

3. Systems of Negative Externalities

These kinds of negative externalities are not, perhaps, of great concern, assuming that groups subject to negative externalities have the powers to resist imposed costs and damages—a possibility I examine below. But what if social capital develops in a way that produces a stable system of negative externalities? Three examples suggest that links between accumulated social capital and society-wide negative externalities are more than a theoretical possibility.

An analysis of social networks in the coffee-growing region of Antioquia, Colombia, suggests that the pervasiveness and relatively stability of organized crime is built, in part, on social capital. The people of Antioquia, writes Mauricio Rubio, 'have been outstanding for their great capacity for work; their family values; their vocation for business, a certain degree of Puritanism, strict moral codes and ethics; their austerity and ability to save; and a whole range of cultural characteristics that not only have differentiated them from the rest of the Colombian population for almost a century, but that, to a considerable degree, also contributed to their early industrialization and economic development.' But it is precisely here, in this area of 'Antioquia colonialization', a 'region of the country whose institutions and social capital have been set forth as an example, that the Medillín cartel was born ... ' Indeed, this region had an early appearance of two factors often considered key indicators of social capital: '(1) the level of trust between strangers taking part in an exchange process; and (2) the ability of the family institution to "open up to" or "adopt" outsiders, thus facilitating the configuration of associations beyond the family nucleus' (Rubio 1997: 808–9). In 'Antioquia some cultural characteristics that facilitated the accumulation of productive social capital, such as trust, were also determining elements for the development of perverse social capital. The fact that the first major advances in exporting cocaine from Medillín were based on trust relationships among the shipping partners has been relatively well documented' (Rubio 1997: 811). One of the many negative externalities of accumulated social capital in Antioquia has been a localized capacity for quasi-political violence, which in turn undermined attempted democratic reforms in the early 1990s aimed, in part, at including indigenous people in the governance of Colombia (Van Cott 2000: chapter 4). In short, the social capital accumulated in Antioquia appears to have been a contributing factor to a failed democratic transition.

A less dramatic example of a system of negative externalities is the political corruption that stabilized within the Italian party system in the post-war period. Della Porta and Vannucci's detailed analysis of corruption in Italy underscores the close relationship between networks, associations, and corruption. While the system of corruption was widely known and distributed its benefits quite broadly, it functioned to enable businesses to impose rents on the public by using the state's monopoly power to collect taxes and purchase public goods. Business people were either on the 'inside' or the 'outside' of this system, as were politicians and other government officials. Political parties functioned as social networks, linking businesses to government offices in exchange for political contributions. The parties also functioned as guarantors of corrupt exchanges, so that the system of corruption did not have to depend upon personal relationships alone (Della Porta and Vannucci 1999: 107).

In part, the incentives participate in the corruption networks were simply structural: Della Porta and Vannucci make the observation that Italian businessmen, politicians, and government officials viewed corrupt dealings not as 'right', but as inevitable and beyond any individual to change (1999: 249–55). If one is going to do business in the public sector, then one has to play by the rules. The aura of inevitability not only creates incentives for corruption, but also justifies it as natural—the way things are done. 'Expecting to have to pay in any case, distinguishing between the "honest" and the "corrupt" becomes increasingly problematic . . . ' When the norm of corruption is established, 'bribes are paid principally because everyone takes it for granted that this will happen' (Della Porta and Vannucci 1999: 252). As Della Porta and Vannucci describe the Italian case, once corruption is established, it takes cultural root, creating its own 'normative system,' complete with an etiquette of unspoken conventions (such as paying the correct bribes before being asked), as well as a norm that set prices without explicit bargaining. The norm in the Italian case, for example, was that the political parties collected 5 percent on building contracts, 10 percent on cleaning services, and 15 percent on maintenance or refurbishing (Della Porta and Vannucci 1999: 254–5).

Since rules and norms of this kind could not be enforced by law, corrupt exchanges were dependent upon trust and reciprocity among participants. These relationships were themselves developed and maintained through associations. Della Porta and Vannucci note that virtually all those involved in corrupt exchanges in Italy were members of a networked system of Freemason lodges, which not only socialized members and enabled them to make contact with one another in exclusive settings, but also acted as a normative control on behaviour, so that no member could destabilize the system by, say, 'overcharging' (Della Porta and Vannucci 1999: 166–7). In addition, networks maintained systems of obligation to key intermediaries: Della Porta and Vannucci (1999: 89) report the conversations of powerful figures who noted the importance of obligations bought with favours, creating relationships of debt that could be used as forms of social control.

These features—trust (particularly in the absence of law), reciprocity, and social networks which provide benefits for members—suggest that the Italian system of political corruption rested on accumulated social capital. The negative externalities were borne by the Italian public in the forms of misdirected public spending, expensive public projects, substandard public performance and accountability, and—more generally—a failed relationship of democratic representation.

Finally, a more familiar example comes from the US, where higher wealth, income, and status are highly correlated with more associative connections (Warren 2001: 212–15). Could social capital be distributed in such ways that support inequality? Putnam argues that, in the US at any rate, this possibility is purely theoretical. When the American states are compared with one another, the empirical indicators of social capital correlate positively with indicators of economic and civic equality (Putnam 2000: 354–61). But from a theoretical perspective, Putnam's approach suggests only that where there is more social capital in aggregate, the effects are more likely to be positive. This correlation may hold in a comparison of states, and yet fail to address the distributions of social capital across classes or groups, which may be unequal enough to stabilize political inequalities. For example, if social capital generates differential access to political power for well-connected lobbyists, their payoffs—industry legislation that weakens consumer protection or provides differential market advantages over competing industries—directly harm consumers and competitors. But these group advantages help to generate the returns that enable further intense lobbying, which maintains unequal access to political power, and unequal responsiveness of representatives to citizens. Other such systems of negative externalities are certain to be present with respect to access to education, urban zoning, business advantages, and so on. More generally, theories of collective action suggest that social capital is more easily generated around goods that can be targeted to members of networks, the results of which can directly harm diffuse public goods. For their part, because of the diffuse nature of public goods, they are less likely to be defended by organizations with accumulated social capital.

4. Is it Possible to Distinguish Bad Social Capital?

From a normative perspective, then, the concept of social capital will do less than it should if it cannot provide distinctions that enable us to know which kinds or functions of social capital are good, and which are bad. Note, again, that from the perspective of the individual, social capital by definition gives positive returns. Social relations function as social capital when individuals can capitalize upon them. 'Bad' social capital refers, rather, to the negative social externalities of social relations from which individuals or groups benefit. Can we say anything about what kinds of social capital are likely to produce negative externalities?

One answer—the most common answer—is quite correct, but not as helpful as we might like. This answer follows Coleman: social capital is not one thing, but rather numerous kinds of social relations grouped according to their function in producing returns to individuals. The same kind of social relation might be good in one context, but bad in another. It follows that to get beyond the abstractions of the concept requires not more conceptual analysis, but rather contextual analysis. We need to ask, case by case, how social relations are functioning as social capital (Schuller, Baron, and Field 2000: 36).

But case studies aimed at finding and analysing the goods and bads of social capital still require a concept that supports such distinctions. Putnam's interesting distinction between bonding and bridging social capital, for example, refers to complexes of dispositions embedded within social relations.[2] *Bonding* social capital is exclusive in nature, and develops within inward-looking and exclusive groups of similar people such as might be found in churches, reading groups, or ethnic fraternal organizations. Social relations that function as *bridging* social capital are 'outward looking and encompass people across diverse social cleavages'. Such social capital can be found, for example, in 'the civil rights movement, many youth service groups, and ecumenical religious organizations' (Putnam 2000: 23). These two kinds of social capital have differing qualities and benefits: bonding social capital creates strong in-group loyalty, is good for specific reciprocity, and can provide social and psychological resources for marginalized groups. Bridging social capital extends networks, and connects groups to resources they might not otherwise be able to access. It enhances information flows, and can 'generate broader identities and reciprocity'. Bonding social capital may generate more 'negative external effects', however, because strong in-group loyalty often generates 'strong out-group antagonism' (Putnam 2000: 23). Intolerance and sectarianism, one of the 'dark sides' of social capital, are the result of the bonding, not bridging kind (Putnam 2000: chapter 22). Nonetheless, Putnam suggests, it is also possible for groups to 'bond along some social dimensions and bridge across others. The black church, for example, brings together people of the same race and religion across class lines' (2000: 23, cf. 358). And so, Putnam argues, the bridging–bonding distinction is not an either–or distinction, but rather one of more or less.

Putnam avoids judging these two kinds of social capital as such, since both are necessary to social life. But he does suggest that 'dark sides' of social capital are more likely to be found in situations in which bonding social capital is not tempered by bridging capital (Putnam 2000: 352–3). In the terms I suggest above, this is a distinction of function—that is, whether or not bonding capital is bad depends on how it combines with its context. If so, we should expect other contextual elements such as distributions of political and economic powers also to make a difference—a point I develop below.

Nan Lin (2001: chapter 5) develops a similar distinction between 'strong ties' and 'weak ties'.[3] Strong ties embody the 'principle of homophily', which is that people tend to associate with others like themselves. This is especially so when their purposes are 'expressive', that is, oriented toward normative and identity-based goods. But, he argues, because expressive groups are more likely to bring together people with similar resources, instrumental goals are likely to be better served by the 'weak ties' that bridge across groups, strata, and classes, since these will provide individuals with access to new resources. The benefits of cooperative action will be greater when people bring together different but complementary resources. The extent to which weak ties function as social capital for actors, however, depends upon how they provide access to resources possessed by other actors. While some of these resources are the personal possessions of actors, most follow from an actor's social positions. Resources such as access to money, power, prestige, and the like are mostly 'structurally embedded' within hierarchies, so that the value of a social connection to an actor, or his social capital, depends upon the position within the hierarchy of the actor upon which he is making a claim.

On Lin's model, then, social capital is the combined effect of purpose (expressive or instrumental), the structural position in hierarchies that provide resources for actors, and networks that provide access to positions (Lin 2001: 75–6). Thus, while the model incorporates the distinction between bonding and bridging social capital, the formality of his presentation enables us to distinguish more clearly between the (1) dispositions and purposes that people bring to social relations, (2) the effects of varying resource endowments according to structural location, and (3) the networks that combine purposes and resources such that they function as social capital. For purposes here, the distinction between individual dispositions and the resource endowments and social networks that enable these individual qualities to function as social capital is the most important. In the terms I use here, it allows us to separate those *sources* of social capital embedded in individual dispositions from the structured contexts within which these sources *function* as social capital.

Distinguishing good from bad social capital thus requires two kinds of questions. The first will be to ask whether 'good' and 'bad' social capital can be specified by looking at the kinds of trust and reciprocity involved. I refer to these as distinctions of 'source', and shall suggest that some kinds of trust and reciprocity are more likely to generate negative externalities than others. Ultimately, however, the judgement of whether social capital is good or bad depends upon two other features of the concept: (1) How do members of a society—both those within social capital relationships and those subject to their externalities—define 'good' and 'bad'? (2) How do particular kinds of trust and reciprocity function within broader contexts of power and empowerment to produce positive or negative externalities? So the second step in the analysis will require relating the concept of social capital to democratic theory, which speaks both to the freedoms and protections necessary for public interpretations of goods and bads, and the empowerments through which individuals and groups can resist the negative externalities others would impose upon them.

5. Distinctions Among Sources: Particularized and Generalized Trust

Once we separate out the functional elements of social capital, we are left with two commonly mentioned sources: trust and reciprocity. In this section

I ask whether some kinds of trust might be more likely to generate negative externalities than others, leaving the question of reciprocity for the next section.

A relationship of trust enables the truster to benefit from the resources of the trustee and vice versa. When people trust one another, they are able to form more extensive cooperative networks, and to benefit from the more extensive cooperation. That is, relations of trust help to generate social capital.

But trust involves risk for the truster, and people differ not only in their willingness to assume risks but also in the ways they hedge. These differences are incorporated into the now common distinction between generalized and particularized trust. The generalized truster will tend toward optimistic assessments of the intentions of strangers, and will therefore be more likely to assume the risks of trust (Uslaner 2002). For this reason, generalized trusters are good builders of bridging social capital. A particularized truster, on the other hand, is more risk conscious. He will be suspicious of strangers, and limit trust to those he knows or who are certified as trustworthy by some kind of shared group membership in a family, small community, church, or ethnic group, for example. Particularized trusters will be good builders of bonding social capital. Although not all bonding social capital need have its origins in particularized trust, those bonds that do result from this form of trust often depend on in-group/out-group distinctions. A positive assessment of in-group members is often defined by a negative assessment of out-groups as untrustworthy, usually on the grounds that the out-group does not share the norms that make members of the in-group trustworthy. As has been noted from the time of Simmel (1964 [1908]), this is why particularized trust can generate racism, ethnocentrism, and religious intolerance, and why bonding often comes at a cost to bridges. That is, because of the way in which trust is generated, these negative externalities are intrinsic to this particular precursor of social capital.

In some cases, the nature of the group activity itself dictates particularized trust. Political corruption, for example, depends on particularized trust precisely because group activities generate negative externalities borne by those outside the corrupt relationships. Insiders trust that those they conspire with will keep their activities secret. Sometimes the particularized trust that is already generated by clans or ethnic groups provides a basis for corrupt activities. Other cases—the Italian case, for example—seem to depend upon semi-formal norms and rules to function enlarge particularized trust through intermediaries.

These apparent correlations between particularized trust and negative externalities can be developed theoretically by looking more closely at the distinction between generalized and particularized trust. Trust may be general or particular with regard to (*a*) the warrant for trust, or (*b*) the interests furthered by the trust relationship.

Warrant. In its simplest form, all trust involves two relationships: A trusts B with good x, in which A has an interest. To say that A *trusts* B with good x is also to say that A allows B *discretion* over x. In a trust relationship, A (the truster) does not monitor B's (the trustee) stewardship over x because the truster has reason to believe that the trustee's stewardship will be consistent with her interest in x (Hardin 1999: 26, Warren 1999: 311). Let us call this reason to believe the *warrant* for the trust relationship. The nature and source of the warrant both affect the ways in which trust generates social capital. The sources of the warrant affect the reach of trust, and hence the reach of social capital. The most basic trust relations are interpersonal: the truster knows the trustee's character and interests. But trust relations can spread beyond interpersonal relations when there are other sources of knowledge about interests. In principle, trust could be warranted by other persons, by shared norms and common cultures, by knowledge provided by the mass media, or by institutions (Warren 2004*a*). Clearly, as these means of warranting trust extend beyond interpersonal relations through these warranting devices, they also extend social capital, from the bonding type to the bridging.

Interest. To get at the question of interest, let us assume, as per the example above, that trust can support social bads, such as political corruption. Does such corrupt trust have a different form? Hypothetically, yes: a trust relationship depends on congruence of interest between the truster and trustee, but *not* the congruence between these interests and interest of those external to the trust relationship. Thus, we might ask, if a third party were to know about the interests furthered by a trust relationship, would he object? Could the interests and the actions that follow from them be justified publicly? Clearly, in the cases of corruption or other unjustifiable exclusions, the answer is 'no'—and the reason is that the trust relationship produces positive externalities for those involved, but negative externalities for those who are not. This characteristic can be identified at the source: parties to corrupt exchanges know

Table 5.1. Types of social capital distinguished by dimensions of trust

Kind of warrant embedded in trust relation	Are the interests encapsulated in the trust relation publicly justifiable?	
	No (particular)	Yes (generalizable)
More particularized	Segmented bonding social capital (e.g. ethnically based political machines)	Solidaristic bonding social capital
More generalized	Exclusive bridging social capital (e.g. Italian political corruption, business networks)	Inclusive bridging social capital

their actions are not publicly justifiable (Baier 1986). The actors anticipate the negative externalities of their trust relations and so take care to keep their relations out of public view.

It is important to notice that the distinction as to whether a relationship of trust is publicly justifiable begins to add a dimension of democratic interpretation: whether the externalities count as *negative* is, in part, a determination to be made by those subject to the externalities of relationships from which they are excluded. As I shall suggest below, in the final analysis the distinction between 'good' and 'bad' social capital is actualized by the kinds of democratic processes and empowerments that enable those affected to render such judgements.

These two distinctions—the generalizability of the warrant and the justifiability of the interests—cut across the distinction between bridging and bonding, as indicated in Table 5.1. The table is indicative, not exhaustive. But it does suggest that it is possible, in principle, to distinguish good and bad forms of bridging and bonding capital by looking at the kinds of trust relationships that function as social capital. Political corruption in Italy, for example, depended not only on the bonding social capital developed within Freemason associations, but also bridging capital, represented by the role of political parties in creating links between government officials and business entrepreneurs, and certifying these links as trustworthy. On the other hand, trust may be particularized—warranted by family and group—and yet the interests served are unobjectionable, simply representing the many ways that people choose to associate and express themselves in pluralistic societies.

6. Distinctions Among Sources: Specific and Generalized Reciprocity

The other often-mentioned source of social capital is the norm of reciprocity. Reciprocity is the basic norm of social exchange—so basic it is built into most ethical and cultural systems, through one or another formulation of the Golden Rule. If I do something for you, I then expect to be able to call on you in a time of need at some point in the future. Individuals who hold to the norm of reciprocity incur obligations when they make claims on others. So the norm of reciprocity generates social capital in the form of obligations: Coleman notes that the 'density of outstanding obligations means, in effect, that the overall usefulness of the tangible resources possessed by actors in that social structure is amplified by their availability to other actors when needed (1990: 307).

Importantly for purposes here, norms of reciprocity differ in their objects. As Putnam suggests, reciprocity can either be *specific*—obligations are incurred between you and me—or *generalized*—obligations are incurred between me and everyone else (Putnam 2000: 20–1). In the case of specific reciprocity, I expect the obligation to be repaid by *you*—not just anybody. If I operate on the norm of generalized reciprocity, however, I feel that my contributions to you in a time of need will be repaid eventually, by someone else perhaps, should I need repayment. I do not level the obligation at you in particular. I help people when I can, and I assume that someone will do the same for me when I am in need.

A society in which the norm of generalized reciprocity is common is likely to have a high capacity for cooperation: obligations are fungible and flexible, and thus tend to multiply cooperative activities over more people, time, space, and sectors. Although it is true, as Coleman argues, that reciprocity is facilitated by trust, the dispositions are not the same: trust includes an element of risk—indeed, a leap of faith in the trustee—that reciprocity need not have. True, I may trust you to make good on an exchange, that is, to hold the same norm of reciprocity as I hold. But if I operate on the norm of generalized reciprocity, then I do not need to trust you to repay, since I don't expect to be repaid by you in any case. Generalized reciprocity, in other words, embodies an altruism that is not necessary to trust.

But we should note that reciprocity is at work in exchanges with negative externalities. In the case of corrupt exchanges, for example, votes are exchanged for money; favourable legislation for campaign contributions; government contracts for kickbacks. In each case, the exchange is regulated by the norm of reciprocity, and extended over time by a fabric of obligations. Coleman's comment about the density of obligations applies here too: an extensive system of corruption, for example, will be 'rich' in outstanding obligations.

Does reciprocity with negative externalities differ in any way from the kind that builds good social capital? The answer is yes. Again, consider political corruption: such exchanges depend upon *specific* reciprocity because the exchange is exclusive. Not only is the exchange defined by the norm of specific reciprocity, but the *exchange itself serves to mark the boundary between those who are part of the corrupt relationship, and those who are not.* Generalized reciprocity cannot be corrupt because it cannot solidify this boundary, and so is by nature inclusive.

Not all specific forms of reciprocity need generate negative externalities. Everyday forms of politeness are specific (if I greet you, I expect a greeting back from *you*, not from some unspecified other at some specified time), as are many everyday social favours. Market exchanges are always specific, but not all generate negative externalities. As in the case of interests, we can make a process distinction: the forms of specific reciprocity that may contribute to bad social capital are those that *ought* to operate under the norm of publicity, but are hidden from view by participants. Everyday specific reciprocity does not require this kind of duplicity. Participants in unjustifiable exchanges hide their exchanges precisely because they know they operate under the norm of public justification, but could not justify their exchange to others. These distinctions are represented in Table 5.2.

Table 5.2. Types of social capital distinguished by dimensions of reciprocity

Extent of reciprocity	Can the exchange be justified publicly?	
	No	Yes
Particularized	Corrupt exchanges	Basic social skills, market exchanges
Generalized	–	Altruism, public spiritedness

7. Distinctions of Function

So some sources of social capital—those based on the disposition of generalized trust and reciprocity, and those embodying interests and relationships that can be justified publicly—lack the capacity to function as 'bad social capital'. Other sources—particularized and embodying questionable interests and relationships—do have the potential. What transforms these potentially bad sources into bad social capital? This question should itself be treated in two parts, both of which point toward democratic theory. The first part has to do with what it means to speak of the 'goods' and 'bads' of social capital, since what *counts* as good or bad is part of the functional formulation of the concept itself. So we tend to say that social capital functions in a *good* way when its consequences support democracy, tolerance, equality, economic prosperity, health, happiness, and community, for example. Negative externalities of social capital are defined as 'bad' relative to these goods.

These are normative judgements that can and should be supported by normative arguments. But insofar as they are effective within a society, definitions of these goods are not ultimately decided by social scientists, political theorists, and philosophers, but rather by more or less explicit processes of social interpretation. While some of these interpretations are virtually unanimous (physical health is good), others are contested. People have differing views of the relative value of tolerance, community, and economic prosperity, for example, especially when they trade off against other goods, such as moral identity, individual liberty, and environmental integrity. Under the best circumstances, these goods and their relative values are defined through ongoing and inclusive public debates and deliberations, which are in turn enabled by civil rights, equal protections, and equal supports. As an epistemological matter, when these elements of democracy do not exist, negative externalities are more difficult to define because the victims are less likely to be able to identify and voice the costs they bear. Bad social capital is less easy to see in non-democratic contexts, because the public markers of good and bad will be faint.

The second part of the functional question depends, at least theoretically, upon the distributions of powers within a society. A social network characterized by trust and reciprocity (sources) functions as social capital when it provides participants with access to resources. So the value of social capital is, in part, a function of the resources that individuals can bring to the network, by virtue of their locations within markets, organizations, and cultural structures. These form the contexts within which trust and reciprocity can function as social capital. And this context—the distributions of powers and resources within it—will determine how easy is it for groups to externalize the burdens of their activities onto others.

Democratic theory suggests that there should be a close connection between unequally distributed background empowerments and the negative functioning of social capital. When power relations between groups are more equal, there is also a greater likelihood that groups can limit or re-internalize costs that other groups seek to impose.[4] Those forms of social capital that can generate negative externalities, then, should be more likely to do so within non-egalitarian contexts.

To put the point in the language of Lin and Coleman, resource relations differ in their symmetry. 'Symmetry' and 'asymmetry' are also ways of describing power relations, and thus individuals' relative vulnerabilities. And relative vulnerabilities affect actors' capacities to resist the negative externalities of social capital, which in turn affects whether social capital functions in good or bad ways.

Take reciprocity, for example. In an egalitarian context, generalized reciprocity produces cooperation from which everyone benefits, while specific reciprocity functions as the basic glue of social interaction. But in a non-egalitarian context, reciprocity can cause obligations to accumulate in the hands of those who have more resources. These obligations can then be used to solidify loyalty, ensure supportive performances, and the like. These are the power bases of paternalistic community or clientelism, political corruption, or other exclusive relationships, depending upon whether reciprocity is general or specific. These possibilities are indicated in Table 5.3. On the other hand, empowerments are themselves generative: by reducing vulnerabilities they act directly on the precursors of association, which in turn provides individuals with social capital they can use to resist imposed externalities.[5]

In short, whether social capital functions as good or bad depends upon the degree of democracy, not only for the normative resources involved in the very distinction itself, but also as a structural and institutional matter, that is, whether people are empowered to pressure, bargain, and persuade as ways of limiting negative externalities. Indeed, one could argue (I won't here), that the *very idea* of bad social capital is parasitic on these two dimensions of democratic theory. It follows that there is a prima facie case for defining

Table 5.3. Types of social capital distinguished by reciprocity and equality

Distribution of obligations	Extent of reciprocity	
	Specific	Generalized
More egalitarian	Instrumental exchange, reciprocal recognition	Inclusive cooperation (bridging social capital)
Less egalitarian	Clientelistic corruption	Paternalistic community

those externalities as negative that undermine either or both dimensions of democracy—equal inclusion in public judgement, and equal empowerment to resist negative externalities—whatever other externalities are defined as negative. Thus, for example, political corruption is bad because it violates rightful inclusions in collective decision making (Warren 2004*b*). Intolerance empowered in ways that exclude classes of people from public deliberation is bad because it damages public judgement. On the other hand, goods such as community depend on the ongoing definitions of public conversations for their definitions.

While a full development of this proposition is beyond the scope of this chapter, it is still possible to indicate what it involves by distinguishing some of its meanings by domain as follows:

- In the case of political institutions, political empowerment and voice reduce negative externalities, and hence the probability that social capital with negative potentials will function in bad ways.
- In the case of economic distribution, plural and secure sources of livelihood reduce negative externalities, and hence the probability that social capital with negative potentials will function in bad ways.
- In the case of culture, what Coleman calls 'closure' will tend to increase the symmetry of obligations, and thus reduce negative externalities. Across a society, norms that are more inclusive and universal will reduce negative externalities. Both reduce the probability that social capital with negative potentials will function in bad ways. The theoretical expectation, then, is that *the more political, economic, and cultural the democracy, the less likely sources of social capital with negative potentials are to function in negative ways*. What follows are some examples of how these propositions might be developed.

8. Distributions of Political Powers

The general idea that broad distributions of political power limit the negative externalities can be illustrated with a number of more specific propositions that are well known and studied. Here are some of them. Corruption is more likely where some elements of democracy are established (limiting the uses of outright force and fraud), but the protective and empowering institutions remain weak, or the reach of empowerments is limited. Clientelism, often associated with corruption, thrives on the political equivalents of protection rackets. In addition, corruption thrives where there are weak institutional checks and oversight. Excessive bureaucratic rules and red tape can limit access to government powers and resources, and can be used by officials as power, especially where they have discretion in interpreting and applying regulations. Weak judicial and administrative welfare systems enable political elites to transform citizens' rights into favours they can use for purposes of control. Weak mass political parties will lack the capacity to discipline politicians, who will often seek election based on the targeted favours they can provide for constituents. Last but not least, robust public spheres function not only to define the goods and bads of externalities by enabling voice for those harmed, but they also function to limit secret (if social capital rich) collusions that generate harms for others. In each case, the bads enabled by social capital depend upon weaknesses in democratic distributions of powers and protections (Scott 1972; Klitgaard 1988; Della Porta and Vannucci 1999; Rose-Ackerman 1999).

9. Distributions of Economic Resources

Distributions of economic opportunities and protections make a difference. Again, the overall patterns are complex, but many of the conceptual possibilities are straightforward. Economies that develop without a parallel political openness—China's, for example—produce entrepreneurs who seek to use state monopoly powers to impose 'rents' on people who need their products. For their part, political elites gain access to new economic resources by trading these powers. Under conditions of mass democracy without welfare rights and protections, economically vulnerable groups have incentives to trade their votes for economic protection. In contrast, widely distributed economic opportunities and welfare securities reduce the opportunities for elites to exploit vulnerabilities. In the cases of machine politics and clientelism, economic protections are based upon and reproduce asymmetrical patterns of obligations, which in turn underwrite these same relationships. A similar logic works within the social services in the US, especially within the subsidized housing market and Medicaid. Both programmes provide the incentives for corruption, owing both to the difficulties of overseeing privatized welfare provision, and to the economic vulnerability of the clients. Finally, individuals in regions with few economic opportunities such as inner cities in the United States or Antioquia in Colombia have incentives to join in illegal markets and protect them with their accumulated social capital.

10. Cultural Vulnerabilities

Some kinds of normative rules and expectations embedded in networks and communities can produce cultural vulnerabilities that might cause social capital to function in negative ways. By 'cultural vulnerabilities', I mean the dynamics of inclusion and exclusion that have to do with the norms and identities that define groups. There are, of course, many examples: ethnic communalism generates vulnerabilities for individuals both within (since they are tied to the community) and without (since communal obligations do not extend beyond the community); the former vulnerability counts as a kind of social trap; the latter as bad social capital.

Coleman's interesting notion that normative systems differ in their degree of *closure*—the extent to which actors within a network can impose and enforce expectations—helps to generalize this observation. When networks are closed, members experience the expectations of one another as obligatory, increasing the network's social capital (1990: 318–20; see also Dasgupta 2005). Moreover, Coleman suggests, closure tends toward symmetry, and hence toward an equality of obligation that reduces members' vulnerabilities to one another.

With this point in mind, let us speculate that the societies within which closed networks function vary, from highly segmented societies with many relatively separate closed systems (e.g. ethnic communalism in the Balkans), to societies that are themselves relatively closed systems based on more universal

Table 5.4. Impact of network closure on kinds of social capital

Domain of closure	Cleavages	
	Segmented	Overlapping
Broad	Inclusive bonding social capital (National Community)	Bonding mediated by bridging social capital (Liberal pluralism)
Narrow	Exclusive bonding social capital (Segmented pluralism; ethnic communalism; favourable conditions for corruption)	—

ethics of reciprocal obligations (e.g. the Scandinavian countries). In addition, a liberal pluralistic society might combine these systems, so that in the 'private' domain of personal relations and association one set of expectations apply, while in 'public life' a broader system of recognitions and reciprocal obligations holds sway (e.g. Canada). These possibilities are indicated in Table 5.4.

Theoretically, broader systems of closure should provide a cultural background that will support generalized reciprocity and trust. That is, individuals can act on these dispositions without fear that they will be 'suckered'; their social generosity and optimism will tend to be supported by others, with the overall effect of supporting good social capital. It is equally clear, however, that narrow, segmented closure such as might be found within an ethnic enclave will generate social capital. But it will do so by decreasing an individual's autonomy and increasing his vulnerability, both to his own community and to those of outsiders. All other things being equal, societies with closed systems are more likely to support bad social capital, since there are few cultural barriers to externalizing costs onto other groups. Where cultural pluralism exists, closure is tempered by more possibilities for exit, which may increase voice and accountability within relatively closed networks, thus reducing the likelihood of social traps.

11. Conclusion

I have emphasized the functional nature of the social capital concept: it is not a thing, nor even a family of concepts. Rather, the concept frames social networks as a problematic from the perspective of their better or worse consequences for individuals. The literature has tended to focus on the better consequences: individuals who invest in social relations tend to be healthier, wealthier, and more effective than those who do not because they can count on benefits that flow from social connections. From this functional perspective, however, we can just as well put the question of negative functions: the same relationships that are beneficial for social network members may shift harms onto groups with lesser capacities for collective action. At worst, social capital could generate self-reinforcing 'systems of negative externalities'—relatively stable systems of political and economic exclusion.

We can make distinctions that capture these normatively important differences, or so I have argued. Some kinds of social capital—those based on particularized trust and reciprocity—have greater potential to generate negative externalities for non-members than those based on generalized trust and reciprocity. But ultimately, we need to know how social networks function as social capital. Whether social capital is 'bad' depends, in large part, on its functioning within its broader social context—the most important characteristics of which have to do with the distributions of vulnerabilities beyond particular social capital networks. Negative externalities can be contained if a society's distribution of resources is sufficient for groups potentially affected to resist externalities. So, more democratic distributions of powers—more democracy—decrease the likelihood that social capital will function in negative ways. Thus, while a society rich in social capital is most certainly good for democracy, more democracy most certainly helps to keep social capital good.

Notes

1. Many have noticed the functional uses, and worry that functional explanations will be mistaken for causal explanations in which the causes of a social relation are inferred from its effects, e.g. Portes 1998: 6. While these concerns deserve note, their importance is primarily as a caution against overextending functional concepts. A functional concept is neither descriptive nor causally explanatory. It may, however, be hypothetically explanatory in the form of an assertion that a particular social relation exists because it has effects in some environment that are beneficial to the individuals within the relationship, causing them to reproduce the relationship. The claim does not, of course, explain what brings a

particular social relation into existence, but only that, having come into being, its functional consequences can support its future existence.

2. Putnam 2000: 22–4. Putnam credits the terminology to Gittell and Vidal 1998: 8, but the distinction has precursors in Granovetter 1973, and Burt 1992.
3. Lin's distinction follows Granovetter 1973.
4. This formulation relies on theories of associative democracy that focus on equalizing group powers to resist and negotiate externalized costs. See e.g. Offe 1996: chapter 2, and Young 2000: chapter 6.
5. Cf. Lin 2001: 194–5: 'When a number of actors share alternative rules or values and being to connect, the network may sustain their shared interests through solidarity and reciprocal reinforcement. . . . As the network expands and the number of participating actors increases, the pool of social capital increases. As shared resources grow, there is an increasing likelihood of a social movement, a process that can transform one or more prevailing institutions.'

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CHAPTER 6

MEASURING SOCIAL CAPITAL

JAN W. VAN DETH

1. Introduction

In the last two decades social capital has become one of the most disputed concepts in the social sciences. It is expected to deal with a wide variety of social and political 'ills' such as declining feelings of solidarity and community, declining confidence in democracy, deteriorating neighbourhoods, decreasing educational attainments, a rise in 'minor' forms of criminality, the spread of corruption, insufficient water supplies, and malnutrition. The general idea behind the expectation of these benevolent consequences of social capital is simple: 'The more social capital a society has, the more efficient its transactions and the more productive it is' (Bothwell 1997: 249). Proponents claim all-embracing and benign effects: 'social capital makes us smarter, healthier, safer, richer, and better able to govern a just and stable democracy' (Putnam 2000: 290). Even if only one of these claims turns out to be true, studying social capital would seem to be extremely worthwhile.[1]

The rapid rise and spread of the concept of social capital and its uses in very divergent fields raises serious questions about its demarcation, conceptualization, and operationalization. How do various scholars understand social capital? Is it understood in similar ways? Do divergent methods and measures result in corresponding conclusions? Do various measures refer to a single construct or latent structure? In this contribution an overview of the main empirical approaches to measuring social capital and the crucial complications in this area is presented.[2] Due to the very large number of conceptualizations available, a 'bottom-up' approach is applied here; that is, instead of trying to find a common nominal definition of social capital and a single corresponding operationalization, the common features of different conceptualizations are depicted. In addition, the various strategies used in empirical research can be systematically classified on the basis of these core characteristics.

2. Defining Social Capital

Any discussion of the measurement of social capital and the problems with such measurement begins with definitions and conceptualizations. The various conceptualizations of social capital usually can be traced back to the seminal contributions by Pierre Bourdieu, James Coleman, and Robert Putnam. In one of the very first publications in this area Bourdieu defined social capital as 'made up of social obligations ("connections")' and he underlined the fact that we are dealing with relations between individuals within specific groups or categories (Bourdieu 1986: 243). Coleman developed a similar approach, but stressed the common aspects of social capital by their functions: 'They all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure' (1990: 302). According to Putnam, social capital refers to 'features of social organization, such as trust, norms, and networks' (1993: 167). In other words, social capital comprises both structural aspects (that is, connections between people or networks) as well as cultural aspects (that is, obligations, or social norms and values, and particularly trust).[3]

Based on this broad characterization of structural and cultural aspects social capital is principally understood as a form of capital; that is, social capital is considered as 'accumulated wealth' or a 'fund' that requires an investment in order to obtain some future benefits. As Bourdieu remarks, capital is 'a potential capacity to produce profits and to reproduce itself in identical or expanded form', which 'takes time to accumulate' (1986: 241). Reviewing the historical backgrounds of the concept Farr concludes that social capital can be used as 'a figurative term for a prospective and productive fund that is created by shared, public work' (2004: 26). Once this investment in social capital has resulted in 'accumulated wealth' or if such a 'fund' is created, a general decrease of transaction costs for all participants becomes available. This positive consequence is mainly due to the fact that, in relatively dense networks, contacts are easily established, and that less resources are required to guarantee compliance in trustful relationships than in other relationships (cf. Ripperger 1998; Esser 2000). Mainly following Coleman, then, social capital, is usually understood as a functional concept: the utilization of social capital results in decreasing transaction costs. It is thought to facilitate coordination and cooperation between people because it can be productive of future goods and actions for mutual benefits. In this way, the utilization of social capital provides a way out of the typical collective good problem confronted by rational participants. Besides, the potentially proactive nature of the concept is emphasized: 'Social capital refers to people as creators, not as victims' (Onyx and Bullen 2000: 25).

The common understanding of social capital as (1) consisting of structural and cultural aspects, (2) something that requires investments for future goods and actions, and (3) a concept defined by the functions it performs, has not led to any consensus about its precise meaning.[4] Virtually every article in this area begins with complaints about the wide variety of definitions and conceptualizations available, or with denunciations that social capital is 'a nebulous concept' (Roche 2004: 107) or that it is 'becoming a buzzword in the policy debates around the world' (Bjørnskov and Svendsen 2003: 24–5). The apparent lack of conceptual clarity and consensus results in a 'semantic fallout' and in the 'mismatch of term and concept' (Farr 2004: 7, 10). More sympathetically Adam and Rončević speak of 'Social capital as a genotype with many phenotype applications' (2003: 158).

At the operational level the bewildering number of different aspects, characteristics, measures, outcomes, factors, indicators, or dimensions of social capital makes a common understanding even less likely. Obviously, the variety at this level is a direct consequence of the lack of conceptual clarity: 'where such a diversity of definition exists it is inevitable that an equivalent heterogeneity of measures is used' (Schuller, Baron, and Field 2000: 26) and 'much of what is relevant to social capital is tacit and relational, defying easy measurement or codification' (OECD 2001: 43). Moreover, the emphasis on social capital as a functional concept suggests operationalizations on the basis of its outcomes, opening the doors for tautological interpretations (Stone 2001: 5) or at least considerable confusion (Ferguson 2006: 8). Whenever an outcome is observed and used as an indicator of social capital, social capital cannot be used to explain these outcomes.

Empirical debates about social capital seem to be characterized by a lack of consensus about its meaning, by conceptual ambiguity, and by a muddling up of outcomes and indicators. This situation is clearly understood by anybody working in this area and special conferences are organized to discuss implications, improvements, and solutions.[5] But we do not seem to need international meetings of experts to grasp a way out. In fact, a reasonable strategy can be found in any introductory textbook in social science methodology. If our main problem is that the meaning of a concept is unclear, then we should start with a *precise* and a priori definition and develop operationalizations explicitly on the basis of this definition. In addition, the validity and reliability of the measures constructed can be systematically assessed. This approach is hardly fruitful in the field of social capital for two reasons. Firstly, not many precise and concrete definitions of social capital are available and the level of abstraction is usually such that virtually no definite conclusion or implications for operationalizations can be deduced. How could we develop meaningful measures for a concept that is not unambiguously defined? It is this ambiguity—and not the lack of consensus—that provides the real challenge here.

Much more important than ambiguity is the second reason not to follow simple methodological recommendations in the case of social capital. For a significant number of researchers the lack of a specific a priori definition is part of the conceptualization of social capital itself. In case of apparent functional approaches, the exact form of social capital is irrelevant as long as it performs the functions presumed. For that reason authors like Putnam (2000) rely on broad sets of indicators to measure social capital ranging from voting turnout, local bar associations, card and picnic parties, or blood donations and churchgoers. Although the exact status of these indicators as operationalizations of social capital is not always clear, the message is unmistakable: anything that facilitates cooperation between individuals can be conceptualized as social capital. Since social capital is defined by its functions and so can be traced in very different ways in different situations, for many authors the actual meaning of the concept cannot be fixed in a priori terms, as it arises in definite situations only. Instead, the meaning of social capital can be fully clarified only if the actual situation as well as the functions presumed is specified. This is not a violation of some methodological article of faith, but rather an excellent way to use concepts in a meaningful way.

Reasonable as this strategy might be, stressing that the meaning of the concept of social capital depends on the definite situation it is applied to does not resolve all problems of ambiguity in this area. For instance, Bourdieu refers to '"connections," which are only one manifestation among others of social capital' (1993: 33), and Putnam writes about 'altruism' being 'an important diagnostic sign of social capital' (2000: 117). Are 'manifestations' or 'diagnostic signs' to be considered as forms of operationalizations of social capital? Sometimes they can and sometimes they cannot; it depends on the particular phenomena we want to explain. What is clear, however, is that we cannot simply discuss various operationalizations of social capital and assess their validity and reliability, unless we know the circumstances in which the concept is used, and the tasks it is presumed to perform.

Can you discuss the qualities of measures of a concept that is not clearly defined? Instead of routinely going on with the creation and discussion of nominal definitions of social capital, a different approach is required here. If the meaning of social capital depends on the actual circumstances in which the concept is used, we need a 'bottom-up' approach; that is, we should try to locate common features of available applications of the concept in order to pin down its main characteristics.[6] In this way, it will become clear which aspects are necessary to depict the core features of different conceptualizations of social capital (see section 3 below). Secondly, research strategies can be classified according to the core features of social capital detected. In this way, the close relationships between specific conceptualizations and research strategies selected can be shown in a systematic way (see section 4). Finally, making an inventory of common aspects and research strategies leaves a number of opportunities and challenges open for the empirical study of social capital. The available experiences provide promising developments, especially if mixed-method approaches become available (see section 5).

3. Common Features

Which common features characterize the various applications and measures of social capital? A close look at the available empirical studies and uses of the concept reveals more similarities and mutual understanding than expected on the basis of the widely observed lack of clarity and consensus in this area. For instance, Roberts and Roche conclude that 'a clear orthodoxy has emerged regarding methods of measurement' of social capital (2001: 18; see also Halpern 2005: 31–5). Virtually all these 'orthodox' approaches begin first with a distinction between structural and cultural aspects of social capital and then a further, second distinction between social capital as an individual resource or as a collective property seems to be relevant.[7]

Structural and Cultural Aspects

The distinction between structural and cultural aspects of social capital as indicated above can be easily traced in the work of many scholars in this area.[8] In the work of Bourdieu the structural aspects are evident by his emphasis on 'connections' (1993: 33) as well as in his definition of social capital as 'the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition' (1986: 248). The fact that this definition also includes cultural aspects is underlined by Bourdieu's references to social capital as 'made up of social obligations ("connections")' (1986: 243) and the fact that 'manners' are included in social capital too (1986: 256). Clearly, in this approach the conceptualization of social capital comprises connections or networks (structural aspects) as well as norms, manners etc. (cultural aspects) related to or communicated within these networks.

The influential works of Coleman and Putnam are also evidently based on the conceptualization of social capital as covering both structural and cultural aspects. Here the structural aspects are usually referred to as social networks, while the cultural aspects are divided into trust on the one hand and civic norms and values on the other. Clearly working in the spirit of Tocqueville, Putnam and many other authors presume that membership and activities in voluntary associations are of especially crucial importance for a minimum level of civic virtue, and that the strength of (American) democracy rests on the existence of a wide variety of those associations (Putnam 1995 and 2000). Social norms and values, but in particular trust among citizens and expectations of reciprocity establish the cultural aspects of social capital (see Putnam 1993; Fukuyama 1995; Inglehart 1997). In this way, the structural aspects of social capital seem to be especially relevant, because they facilitate the development of trust and norms of reciprocity—just as for Bourdieu 'connectedness' implies 'obligations'. In turn, the existence of mutual trust, norms of reciprocity, or obligations reduces the risk that a cooperative individual will be forced to pay the bill left behind by cheating partners.[9]

Since social capital is presumed to reduce the transaction costs for collaborating individuals and to solve the dilemma of producing collective goods, structural and cultural aspects are not simply conceptualized as different features of social capital, but as highly (causally) interdependent characteristics. In order to emphasize the importance of these interdependencies several authors stress specific aspects (for instance, networks or trust) and reject encompassing definitions of social capital. Other authors emphasize that some components or aspects are more important than other features: 'the deepest definition of social capital deals with trust' (Paldam 2000: 629–30), or 'We have two indicators of social capital—informal social interaction and number of children in the household' (Wilson and Musick 1997: 699). Therefore, distinctions such as structural and cultural aspects, or between trust on the one hand, and civic norms, values, or obligations on the other, can be easily discerned in operationalizations of social capital. The dominant operationalizations concentrate on networks and on trust; that is, measures of activities in voluntary associations and measures of personal and social trust are commonly used for structural and cultural aspects, respectively. In other words: available operationalizations rely on distinct indicators for networks, trust, and norms and values; relatively rare sophisticated measurement models integrating several aspects are discussed.

Individual and Collective Properties

A second distinctive feature of conceptualizations of social capital concerns the question of whether social capital is an individual or a collective property. Social capital can be conceived either as an aspect of relationships among individuals—that is, as a property of individuals and to be found in networks of individual participants—or it can be conceptualized as a collective good, by definition available to each participant. In order to distinguish these two variants clearly, Esser (2000; see also his chapter in this volume) proposes two different terms to replace the general phrase social capital: 'relational capital', which refers to individual resources and relationships between individuals, and 'system capital', which refers to social capital as a collective good and to the complete set of relationships.[10] Inkeles highlights a similar distinction with his remark that 'we must take a stand on a critical question, to wit: *whose capital is at issue: that of the individual or the community*?' (2000: 247, emphasis in original; cf. Paxton 1999: 93–5; Lin 2000: 786; Dekker 2004: 90–1). Other authors use this distinction to express their preference for one of the two types. For instance Newton remarks that 'if social capital is anything, it is a societal not an individual property, and should be studied as a social or collective phenomenon, not at the individual level as if it were a property of isolated citizens' (2001: 207). Rahn, Brehm, and Carlson start with the statement that social capital is 'by definition a property of collectives' which is 'clearly distinct from portable human capital like the civic skills' (1999: 113).[11] Hooghe and Stolle emphasize the distinctions between physical and human capital on the one hand and social capital on the other: 'While the first two kinds of capital in general are individually owned, social capital resides in relationships and therefore is almost by definition a collective good' (2003: 4). Prakash and Selle (2004: 29) do use the term 'collective good', but stress the fact that the 'distribution across a society or population' is the most important aspect of social capital.

Distinguishing between the two conceptualizations of social capital—individual vs. collective depictions—is important because it implies the selection of quite different research strategies and corresponding operationalizations. The distinction refers, first of all, to the character of social capital (an individual or a collective good). Moreover, it refers also to where the social capital concept is deployed (a property of an individual or of a group of people). Following the vague meaning of the term 'collective', it is not always clear whether the distinction between relational capital and system capital is identical to the distinction between micro- and macro-approaches (see van Deth 2001). Whereas the first distinction refers to the conceptualization of social capital, the last distinction is based on the level of analysis.[12]

In particular, the use of aggregated indicators of social capital might lead to ambiguities at the operational level, because they can be used in macro-level interpretations as well as in micro-level explanations of social capital conceptualized as a collective good. In the latter case social capital is considered to be an attribute of networks (or societies, regions, states, communities, etc.) and information is presented in the form of, for instance, the density of voluntary organizations or the historical development of clubs. Examples of this approach are 'The Johns Hopkins Comparative Nonprofit Sector Project' (cf. Salamon et al. 1999) or Putnam's comparisons of social capital in fifty

American states (Putnam 2000).[13] The other interpretation is more common and relies on the analyses of aggregated micro-level data, usually obtained by questioning representative samples of the populations of several groups or communities. For instance, for Bourdieu, social capital simply 'is the aggregate of the actual or potential resources' of members of a group (1986: 248). Empirical examples of this approach based on aggregate indicators are Inglehart's (1997) usage of the World Values Surveys to identify the conditions for the persistence of democratic decision-making processes, Newton's (2001) analyses of the relationships between social and political trust in several countries, Keele's (2005) examination of time series on social engagement and trust in the US, and Saxton and Benson's (2005) comparison of the growth of the non-profit sector in 284 US counties. An early example of combining aggregated individual data and macro-data is available in Knack and Keefer's (1997) analyses of the impact of social capital on economic performance.

4. Measures and Indicators

Strategies in the empirical study of social capital can be distinguished on the basis of the specific aspects considered (structural and cultural aspects) and on the characterization of the assets (individual vs. collective property). Several research strategies and indicators follow from this distinction almost by definition. For instance, information about involvement in voluntary activities among particular parts of the population can be efficiently obtained by standard surveys, whereas the density of voluntary associations can be estimated on the basis of official statistics. In particular, the measurement of trust seems to be closely connected to the use of polling methods. Apparently not aware of experimental studies Roberts and Roche remark that is difficult to 'conceive of any non-survey data source which might represent an adequate proxy for trust' (2001: 22). Other researchers stress the function of social capital to promote social cohesion and consider the consequences of a lack of cooperation as inverse measures of social capital. In that approach, for instance crime rates or low levels of economic growth are used as indicators for the absence of social capital (OECD 2001: 43–4).

The selection of a research strategy, however, is not completely determined by the preferred conceptualization of social capital and many options are open to the creative researcher. The range of opportunities available reflects the broad and abstract character of the concept of social capital as mainly defined by its functions. For that reason, it does not make sense to strive for a complete overview of all available strategies and operationalizations. Instead, the main measures and indicators used in empirical research are systematically summarized in Table 6.1. The two main dimensions of this table reflect the basic distinction introduced in the previous section. First, the main aspects of social capital can be discerned in structural aspects (networks or other forms of contacts between actors) and cultural aspects (trust and confidence on the one hand, and civic norms and values on the other hand). The second dimension is concerned with the characterization of social capital as an individual or as a collective property.[14] The two dimensions of Table 6.1 define six major conceptualizations of social capital and various measures are available in each of these six cells.

A further refinement of the sixfold classification can be arrived at by distinguishing between various measures and indicators used for each of these six main conceptualizations on the basis of the data collection methods applied. Empirical studies of social capital generally rely on four data collection methods: surveys and polling, statistical indicators and official statistics, community studies and observations, and projects and experiments. Including this further distinction in Table 6.1 allows us to categorize each measure of social capital on the basis of three dimensions: the level of analyses (individual or collective property), the character meant (structural or cultural aspects), and the data collection methods used (surveys, statistics, observations, experiments). For each of the possible twenty-four types in Table 6.1, examples are presented. However, for almost half of the number of possible measures no example could be found in the existing literature and the respective cells had to remain empty. In other words: of the large number of potential measures of social capital only a limited number is actually used. Selecting the data collection method as the point of departure, the following conclusions can be reached.

Surveys and Polling

Even a cursory glance at Table 6.1 makes clear that the selection of survey or polling methods dominates the field. For some aspects like norms and values this situation is self-evident and much useful information can be

Table 6.1 Major measures of social capital (inverse measures in italics)

Characteristic	Data collection	Structural aspects	Cultural aspects	
		Networks/contacts	Trust/confidence	Civic norms and values
Individual feature	Surveys/polling	Membership in voluntary associations Volunteerism (Ego-centred) networks and social contacts Time budgets Number of children in the household	Trust in other people Confidence in institutions Ethics and corruption	Norms of reciprocity Obligations Democratic attitudes Solidarity and identification Togetherness Subjective well-being
	Statistical indicators/ official statistics	—	—	—
	Community studies/observations	Voluntary associations Networks and social contacts	—	—
	Projects/experiments	—	Distribution of money	—
Collective feature	Surveys/polling	Aggregate membership figures Aggregate voluntarism figure Aggregate social contacts Network characteristics (density etc.) Aggregate time budget figures Social mobility	Aggregate figures on trust in other people Aggregate figures on confidence in institutions	Aggregate figures on norms of reciprocity Aggregate figures on democratic attitudes Aggregate figures on solidarity and identification
	Statistical indicators/official statistics	Organizational activity and resources Volunteerism Mass media and use of (new) technology	Balance sheets of co-ops	*Voting turnout* *Crime rates* *Legal protection*
	Community studies/observations	Voluntary associations Networks and social contacts	—	—
	Projects/experiments	—	Lost wallets with money	—

collected with sophisticated survey techniques. For connections and networks, it is usually difficult to observe actual relationships. Instead of developing other approaches focusing on the structural aspects of social capital, many researchers still simply ask people about their networks and contacts. Consequently, phenomena like social cohesion, social engagement, or corruption are not observed directly, but instead polls are used to obtain information about perceptions, attitudes, and properties of individuals.

Themes like social cohesion, engagement in networks, civic orientations, obligations, or norms of reciprocity have a long tradition in the social sciences and survey research in these areas existed decades before the concept of social capital became fashionable. Many researchers rely on available data collected for other purposes or on data with proxy measures for the various components of social capital. A large part of the empirical studies published are based on the World Values Surveys or, more recently, on the European Social Survey.[15] In this situation, it cannot be expected that the measures used meet the theoretical specifications of the social capital concept. This is especially clear for suggestions to use measures of trust as proxies for the much broader concept: 'trust maybe an acceptable proxy for social capital in the absence of a wider and more comprehensive set of indicators' (OECD 2001: 45). Although acceptable and unavoidable as a general research strategy in a field where high-quality data only slowly become available, the risks in using proxies from existing data sets are self-evident and even can be 'theoretically naive in that a form of perverse logic operates whereby the available data define the interpretation of social capital' (Roberts and Roche 2001: 19). Therefore, the development of new and more appropriate survey instruments can be very rewarding as Roche (2004) shows in his study of four boroughs in the West Midlands. Extensive survey instruments to measure social capital have been developed by the 'Citizenship, Involvement, Democracy' project (CID),[16] by the World Bank (Grootaert et al. 2003) and by the Office for National Statistics (Harper 2002).[17]

Survey and polling methods by definition generate information about individual perceptions, attitudes, and properties. Dealing with collective phenomena, however, is much more complicated if they cannot be conceptualized as aggregated individual characteristics only. In some instances, it is possible to develop indicators for collective phenomena on the basis of individual indicators (like the density of a network). In other cases, this strategy is highly problematic (see van Deth 2001). Does aggregate survey data about individual trust really measure the amount of trust available as a collective good for all citizens? And what is measured if we simply count the number of voluntary association memberships of each respondent and compute the average membership in voluntary associations in a society?[18] The validity of indicators based on aggregated individual data obtained by survey and polling methods is questionable for conceptualizations of social capital as a collective good.

Statistical Indicators and Official Statistics

The use of statistical indicators and official statistics seems to offer an attractive alternative for standard survey and polling methods. However, these statistics appear to be used for conceptualizations of social capital as a collective property and no examples are available for conceptualizations of social capital as an individual feature. Crime rates, voting turnout, associational density, the amount of blood donated, or even the number of lawyers can all be interpreted as indicators of the available amount of social capital in a group or society. Another example is presented by Galassi (2001) who uses official statistics on Italian co-ops since 1883 as an indicator of social trust.

If social capital is defined by its functions, an evident lack of predicted consequences can be used as an indicator for the absence of social capital. In this way, for instance, high crime rates, low levels of voting turnout, low amounts of blood donated, and a scarcity of voluntary associations or of lawyers can be used as inverse indicators of social capital. This strategy might be an attractive solution for the problems of using aggregated individual data for collective phenomenon, but the dangers are substantial: 'care is needed in using indicators of social dysfunction to measure changes in social capital since the full range of causes of social breakdown is not known . . . Moreover, such approaches risk confusing consequences with sources' (OECD 2001: 43–4).

In the last few years, statistical information from divergent sources has been used to construct composite indexes of social capital as a collective property. These attempts consist of the collection of information on a wide range of aspects of social capital as well as the development of encompassing measurement models covering all aspects of the construct. Anheier (2001) proposed a 'Global Civil Society Index' that covers many aspects of the social capital concept, but later publications rely on long listings of relevant aspects rather than attempts to construct more general measures (see Anheier et al. 2005: 222–344). Other examples are the 'CIVICUS Index on Civil Society',[19] and the overviews of 'Indicators of a Healthy Civil Society' by Bothwell (1997) and Heinrich (2005).

Community Studies and Observations

The strong emphasis on Tocquevillian approaches in debates about various social 'ills' almost automatically leads to a focus on communities for the study of social capital. Social networks of ordinary people are concentrated in communities and neighbourhoods, and most voluntary associations that offer opportunities for participation are locally organized (see the chapter by Lelieveldt in this volume). Trust and reciprocity might also be addressed to strangers, but these strangers usually are encountered in everyday situations. If one wants to observe social capital 'in action', then there is the need to study communities and neighbourhoods where face-to-face contacts shape people's networks.

Several studies focus on social capital in communities and neighbourhoods directly, whereas other studies pay attention to social cohesion. An example of the first type of research is the organizational part of the already mentioned CID-project. In the first phase of this project, information is collected on all voluntary associations in several European cities—the second phase consists of interviews with activists and volunteers in a number of these associations (Maloney and Roßteutscher 2006). A comparative study of associations and informal networks in two Nicaraguan villages is presented by Molenaers (2003). Studies on social cohesion in communities and neighbourhoods are frequently found in Britain, where the strong emphasis on 'social exclusion' seems to have promoted this type of research. For instance, Roche (2004) reports the development of 'a social capital oriented tool' used in four West Midlands boroughs. Yet despite his critical remarks about survey research, his own work is restricted to using interviews.

Projects and Experiments

If social capital is defined by its functions, deliberately designed experiments can provide information about the ways it performs these functions.

A well-known experiment, mentioned by Knack and Keefer (1997: 1257), is the intentional losing of wallets containing money in several cities. The number of wallets returned can be used as an indicator of the degree of trust and support for norms of reciprocity in each city, and provides information about the level of social capital conceptualized as a collective good. Information about social capital as an individual resource has been obtained by experiments focusing on trust and trustworthiness of persons invited to rely on promises to share money by strangers (cf. Glaeser et al. 2000; Cox 2004; Karlan 2005; Kosfeld et al. 2005). Experimental designs (including games) are frequently used as parts of mixed-methods strategies to measure social capital (cf. Fehr et al. 2003; Karlan 2005 and the overview presented by Rothstein 2005: 95–7). A very original approach is presented by Kosfeld et al. (2005) who extended the well-known experiment of sharing money with strangers as a method to measure trust, with the intranasal administration of oxytocin (a neuropeptide). They show that pro-social behaviour has a clear biological basis that is often overlooked.

5. Open Questions: A Single Method, Level, and Measure?

The number of empty cells in Table 6.1 comes as a surprise: apparently, the actual number of measures of social capital applied is much lower than the number of different opportunities. The broad and very general conceptualizations of social capital available offer ample opportunities for very different research strategies and corresponding operationalizations. Although a variety of measurement strategies and indicators selected are available the diversity is not as large as one might expect on the basis of the diffuse and general character of the concept. Many cells in Table 6.1 are empty and the empirical study of especially cultural aspects of social capital seems to be characterized by the dominant position of polling methods and the use of straightforward survey questions. Available alternative approaches are restricted to the use of official statistics as (inverse) indicators of social capital and some examples of using experiments or observations can be found. Underdeveloped is the use of mixed-method approaches—or even multi-item measurements—in order to arrive at more valid and more reliable measures of social capital.

Furthermore, the debates focus on the application of multi-level models to trace the impact of contextual factors and micro-level factors and on the questions whether the various indicators and 'sub-dimensions' detected indeed represent a single construct.

A Single Method?

Examples of mixed-method approaches are usually restricted to a particular aspect of social capital—typically trust and trustworthiness. In general terms, Harpham (2003) pleads for a combination of 'quantitative' and 'qualitative' methods to measure social capital of children. Roche (2004: 108) strongly suggests the combination of survey techniques with 'more qualitative elements such as in-depth interviews and focus groups', whereas Stone (2001: 3) adds 'the collection of local documents and histories' to this list. Yet neither of them tries to materialize this idea. De Hart and Dekker, on the other hand, introduce 'municipal and police statistics' as well as information from 'observation studies, in-depth interviews and focus groups' (2003: 166) in their attempt to explain the evident differences in social capital in two Dutch localities. Mixed-method approaches mainly concentrate on the combination of survey and experimental methods, and are usually based on claims about the superiority of these last mentioned methods (cf. Carpenter 2002). Glaeser et al. (2000) use surveys among Harvard undergraduates to predict their trust and trustworthiness in experiments based on distributing money. In a similar way, Fehr et al. (2003) integrate interactive experiments and representative surveys and show that in Germany people's expression of trust correlates well with their behaviourally exhibited trust. Comparing experiments and surveys in communities in Bangkok and Ho Chi Minh City, Carpenter, Daniere, and Takahashi (2003) found weak but consistent relationships between the various measures of social capital applied. Consistent relationships between experimental measures of social capital and the likelihood of the repayment of loans in Peru are reported by Karlan (2005).

Mixed-method strategies are repeatedly recommended, mainly in attempts to deal with the limitations of survey and polling approaches. In several local studies, the interpretations of interview results are widened by considering information about communities. Systematically developed mixed-method strategies are rare and usually restricted to combinations of experiments and surveys in order to study trust and trustworthiness.

A Single Level?

Instead of applying mixed-methods strategies for measurement purposes, several authors develop multi-level models especially to study the impact of factors at the micro-level as compared to contextual factors. To mention only a few examples: Brehm and Rahn (1997) analyse the developments of social capital in the US, Secor and O'Loughlin (2005) compare trust in various neighbourhoods in Moscow and Istanbul, Bühlmann and Freitag (2004) and Freitag (2006) study the impact of Swiss cantons on membership in voluntary associations, Costa and Kahn (2001) combine individual and community characteristics in their explanation of the decline in social engagement in the US since the early 1950s, and Rothstein (2005; see also the chapter by Rothstein and Stolle in this volume) investigates the relevance of welfare state provisions for the existence of social capital. Examples of using similar combinations without constructing multi-level models are Knack and Keefer's (1997) study of economic performances and the analysis by Hurlbert, Beggs, and Haines (2001) of social networks in areas struck by hurricanes and in 'underclass' areas.

These studies provide important information about the interdependencies between various forms of social capital and the position of individuals in different contexts. They underline the need to distinguish carefully between social capital as an individual property and the social context. Social capital functions on the micro-, meso-, and macro-level, and it can be conceptualized as both an individual and collective property. Obviously, the various strategies do not exclude each other at the operational level and it is not uncommon to find mixtures of both macro-indicators and aggregated individual data.

A Single Construct?

Besides introducing mixed-method and multi-level models, empirical work on social capital focuses on the question of whether various measures indicate the existence of a single latent construct. If social capital is broadly understood as consisting of components such as social engagement, trust, and norms, the key question is how indicators of social engagement, trust, and norms are related to a single measure of social capital. Paldam even speaks of the 'social capital dream' in which 'all definitions try to catch aspects of the same phenomenon, so that all measures tap the same latent variable' (2000: 629). In similar ways, other authors stress the apparent differences and resemblances in this area. For instance Stone (2001) argues that social capital is a 'multidimensional concept'. Without examining empirical evidence she expects that 'ideally each of these dimensions will also be linked to the other' (2001: 35). Paxton (1999: 119–20) develops a sophisticated measurement model simply combining indicators on trust and organizations to arrive at measures of social capital applied in time series analyses of US data. Onyx and Bullen (2000) present analyses of 68 items presumed to represent all aspects of social capital. The results of their detailed statistical examinations show that three strong factors can be detected (local participation, social involvement, and trust), but that in addition, a subset of 36 items proves the existence of 'a general factor, one that can be said to reflect generic social capital' (Onyx and Bullen 2000: 37). Examining a number of empirical studies Bjørnskov and Svendsen conclude that 'four popular indicators measuring elements of social capital at the micro, meso and macro levels all load powerfully onto a single underlying component'. At the national level social capital can even be seen as a 'unitary concept' (Bjørnskov and Svendsen 2003: 25).

Other researchers are more reluctant to accept the existence of a single construct and declare that 'social capital is not a one-dimensional all-purpose resource' (Flap 2002: 49). Indeed, attempts to reveal a single latent structure do not unambiguously show that the various components of social capital simply belong together. Stolle and Hooghe express their scepticism very cautiously: 'Even if we stick to a comprehensive definition, one that includes various aspects of social interactions, civic attitudes and engagement, it seems plausible to admit that all these components do not necessarily form a syndrome' (2005: 157). Much clearer—and based on very extensive methodological and statistical tests—Stone and Hughes conclude that 'creating an overall measure of social capital made no statistical (or substantive) sense', but good composite measures for core elements of social capital ('most notably of norms of trust and reciprocity and network size') can be obtained (2002: 39). Similar conclusions are presented by other researchers (i.e. Burdine et al. 1999 or Halpern 2005: 38–9). Durkin (2000) did not find significant relationships between widely used measures of group membership on the one hand and trust on the other. Focusing on social capital as a quality of individuals enabling access to social resources, van der Gaag and Snijders (2005) detected four distinct 'domain-specific social capital measures' and stress the importance of recognizing multiple sub-dimensions of social capital.

The existence of a single latent construct for social capital is further challenged by findings that show that different measures, aspects, or dimensions of social capital do not display uniform relationships with other factors. For instance, Durkin (2000) demonstrates that the economic impact of social capital unambiguously depends on the use of different measures of social capital. In a similar way, Saxton and Benson (2005) show that the growth of the non-profit sector does not depend on the 'trust-factor', but on measures of social engagement in various communities. The results presented by van der Gaag and Snijders (2003, 2005) clearly underline the fact that different measures of social capital have different predictive values on prestige and income. A similar conclusion is presented by de Hart and Dekker (2003) who rely on two measures of social capital to explain differences between two Dutch localities.

If social capital indeed is 'a genotype with many phenotype applications' (Adam and Rončević 2003: 158), then we should not be surprised that many measures and indicators suggest the existence of a variety of meaningful sub-dimensions. For Putnam, not even these sub-dimensions can be easily identified: 'I don't think that we are anywhere near yet a kind of canonical account of the dimensions of social capital' (2001: 2). On the basis of the presently available empirical evidence the optimistic interpretation is that if substantial improvements of our measures and methods can be reached in the near future, we will detect both the various sub-dimensions as well as their relationship to a single construct or latent structure called social capital. The less optimistic view is that despite—or maybe because of—measurement improvements, we will end up with a set of distinct and unrelated indicators for important phenomena like trust, social networks, and willingness to cooperate. In both cases, the nasty problems of cultural differences and functional equivalence between various measures remain to be solved (Halpern 2005: 39).

6. Conclusion

In the last decade, social capital has entered almost each and every field of the social sciences. This popularity is at least partly caused by the open and usually undefined character of the concept and the ease with which the meaning of the concept can be stretched. The price of this virtually unlimited flexibility and adaptation, however, is paid at the operational level. Since social capital is defined by its functions, specific operationalizations require the definition of the actual circumstances for the use of the concept. Unlike the concept itself as such, its particular operational meaning depends on the actual circumstances. An intelligent discussion of the pro and cons of different research strategies, then, is only possible when these circumstances are specified.

The embarrassing number of distinct conceptualizations of social capital is a problem only for researchers caught by textbook recommendations that the quality of measures can only be discussed in an intelligent way if an unambiguous nominal definition of the concept is available. A bottom-up approach as used here—characterized by the search for common features and a systematic classification of research strategies—shows that the diversity of indicators and measures is not as large as one might expect on the basis of the diffuse and general character of the concept. However, the measurement of social capital has become increasingly diverse in the last few years; new instruments have been developed and new approaches are being tried. Most of these implementations are attempts to overcome the limitations of conventional survey and polling approaches by developing experiments, observations, and analyses of documents. Furthermore, the results of a few mixed-method projects have become available. In order to study the impact of contextual factors on micro-level relationships, multi-level models seem to become increasingly popular. Finally, the question of whether social capital can be measured as a single latent construct still divides empirical researchers. Whereas some authors stress the existence of a single construct, others present empirical analyses suggesting several distinct measures for distinct aspects of the concept.

Many questions concerning the measurement of social capital remain open and a few intractable problems await clever solutions. But the rapid expansion of empirical studies relying on social capital as a concept has not resulted in a fragmentation of the field. On the contrary: the open and broad conceptualization and the wide variety of operationalization seem to meet the needs of many social scientists. In this situation there is no place for some authoritative or 'real' definition of social capital (whatever that might be). Consequently, the wide variety of operationalizations should be accepted as an indication of the importance and vitality of the study of social life in complex societies, and empirical research should adapt to this liveliness.

Notes

1. But as Roche notes 'there is currently little evidence as to the "actual" benefits of adopting social capital either as a descriptive or analytical tool for the purpose of assessing and/or developing policy strategies' (2004: 99).
2. Pieces of the first part of this chapter are based on an earlier publication on the same topic (van Deth 2003).
3. Instead of 'cultural aspects' several authors prefer the term 'cognitive aspects' (see, for instance, Harpham 2003 or Karlan 2005). Since the cultural aspects of social capital also include affective and conative aspects, referring to cognitive aspects only is too restricted here.
4. See for extensive overviews of the different uses and meanings of social capital: Haug (1997), Adam and Rončević (2003), Farr (2004), or Halpern (2005). Very systematic discussions are presented by Paldam (2000) and Ferguson (2006).
5. See, for example, the international conference 'Social Capital: The Challenges of International Measurement' organized by the OECD and the Office for National Statistics, September 2002.
6. In a similar way, Ferguson (2006) applies a 'Systematic Review Method (SR)' to classify measures of social capital.
7. See Durlauf and Fafchamps (2004) for a very broad overview of empirical studies on social capital from an economic perspective. The authors distinguish these studies on the basis of their focus (for instance developing countries or OECD countries), and on the basis of four characteristics: 'agents', 'outcomes', 'social capital measures', and 'findings'.
8. Paxton summarizes this distinction as 'objective associations between individuals' and 'a subjective type of tie' (1999: 93).
9. The question of where these feelings of trust, reciprocity, and obligations come from establishes a nice 'second-order dilemma'. Without an answer to this question, however, the whole argument about the presumed positive consequences of social capital appears to be rather superfluous.
10. For the 'public-good aspect of social capital' see also the early remarks by Coleman (1990: 315–17).
11. However, in an earlier analysis they remark: 'Social capital is an aggregate concept that has its basis in individual behaviour, attitudes, and predispositions' (Brehm and Rahn 1997: 1000). The confusion is certainly not reduced with the statement that 'social capital manifests itself in individuals as a tight reciprocal relationship between levels of civic engagement and interpersonal trust' (Brehm and Rahn 1997: 1001).
12. Although very careful in his depiction of social capital at the individual and the aggregate level (social capital 'of each member of the population' is 'an average of the social capitals of the population') Paldam completely seems to neglect the potential collective-good nature of social capital (2000: 631).

13. See the very informative overview of 'indicators of social capital' that are 'calculated at the national level and have been used in cross-country research' presented by Grootaert (2001: 22–3). An overview of the attempts to measure 'civil society' (a clearly related concept at the macro-level) is presented by Heinrich (2005).
14. Several authors use further going distinction such as micro-meso-macro levels. Since the relevant distinction is between individual vs. collective properties here, a simple dichotomy suffices.
15. See for information about sampling procedures, question wording etc. of the World Values Surveys: <www.isr-umich.edu> and the overview of social capital measures presented by van Schaik (2002). For the European Social Survey see: <ess.nsd.uib.no/2003>.
16. The Network 'Citizenship, Involvement, Democracy' (CID) was funded by the European Science Foundation. The main study consists of interviews on social capital and democracy among representative samples of the populations in twelve European countries. See: <www.mzes.uni-mannheim.de/projekte/CID> for further information, and van Deth, Montero, and Westholm (2007) and Maloney and Roßteutscher (2006).
17. See Healy (2003) for a concise overview of the various large-scale international survey projects developed to measure social capital and the information provided by the Worldbank (<www.worldbank.org>) or the Office for National Statistics (<www.statistics.gov.uk/socialcapital>).
18. Virtually all polling strategies use a simple question on membership of voluntary associations as a proxy for social engagement and convert the responses to this questions in an additive index, although this practice is patently incorrect for most purposes (cf. Morales 2002; or van Deth and Kreuter 1998). Dekker is even more sceptical about the advantages of using surveys in this area: 'We should probably not try to get any closer to real people in real networks with real assets by loading questionnaires for the general pubic with a large number of questions on concrete networks and interactions' (2004: 105).
19. See <www.civicus.org> and a general discussion of this measure by Couto (2000) or Heinrich (2005).

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CHAPTER 7

SOCIAL CAPITAL AS A RESEARCH PROGRAMME

DARIO CASTIGLIONE

Theoretical investigations of social capital are usually concerned with what social capital *is*. In this chapter, I shall address the more indirect question of what social capital *is about*. My approach to the concept of 'social capital' is therefore less analytical than the one followed in other chapters of Part I of this Handbook. I shall instead offer a more interpretative and historical route to explaining what different conceptions of social capital *do*; and what their application to social theory and analysis might entail.

The reason for such a difference in approach is partly to do with the assumption that the 'core' meaning of complex concepts consolidates over time—albeit neither definitely nor irreversibly—as different conceptions vie with each other in trying both to define the concept's meaning and to put it to different uses. This is the more so in the case of a concept of fairly recent origins such as social capital. Furthermore, I am inclined to think that while the concept of social capital remains rather elusive, its impact on social research and theory has been remarkable. My argument, as this chapter will try to elucidate, is that this is due to the kind of research programme and research questions that social capital elicits, rather than to its intrinsic coherence as a concept.

1. Intellectual Histories of Social Capital

One way to come to terms with what social capital is about is to trace its roots, and to reconstruct the intellectual and conceptual contexts within which the concept emerged. Although no systematic intellectual history of social capital has yet been attempted, several lines of enquiry have been pursued. The most obvious one is the identification of the key authors who have been instrumental in putting social capital onto the social research agenda. The widely shared consensus is that, in different ways, Pierre Bourdieu, James Coleman, and Robert Putnam are mainly responsible for such an achievement (cf. amongst others: Field 2003: 11–43; Swain 2003: 186–99). Their work and their different conceptions of social capital have been closely analysed and discussed, but this has not involved a more in-depth enquiry on the intellectual routes through which these authors have arrived at social capital as a key element of their own theoretical vocabulary. The closer attempt can perhaps be found in a series of extended footnotes in Woolcock (1998: n. 20, in particular), which identify the main contributions to various areas of social capital research, and a constellations of ideas and concepts that have an elective affinity with social capital itself and have somewhat contributed to its conceptualization. But the lack of a proper investigation of the more immediate intellectual influences from which the idea of social capital has originated is hardly surprising given the proximity in time of the authors in question, so that their contributions are discussed for their theoretical and analytic merits rather than being historicized, something that usually requires time and historical perspective.

A second line of historical enquiry is that indicated by some of the main authors themselves, who have pointed to earlier uses of the concept. References are usually made to Jane Jacob and Glenn Loury, or more generically to Gary Becker and Theodore Schultz for their pioneering work on human capital, which is seen as having paved the way to the idea of social capital itself. The earliest reference is that to Lyda Judson Hanifan, an American educationalist, whose interest in the idea was eminently practical rather than theoretical. In each of these instances, however, there is no clear line of intellectual descent. The intuitions of each of these earlier authors on the importance of social relations in educational, urban, or working contexts are clearly relevant to social capital, but are no more than intuitions, with marginal relevance to the main theoretical issues raised by the concept of social capital. The attempt by James Farr (2004) to construct two narratives of social capital in the late nineteenth century and the early twentieth century—one based on a socialist critique of political economy, and the other on critical pragmatism respectively—although ingenious, remains unconvincing. John Dewey's use of 'social capital' in the texts cited by Farr (2004: 14–20) is, if anything, more closely related to what is now understood as human capital; while Edward Bellamy's idea of a 'social fund' is more about the social nature of economic capital than the recognition that social relations themselves are resources that can be accumulated. Clearly, the discourses unearthed by Farr have affinities with some of the preoccupations underlying social capital research, but they are far from being the centrepieces of a meaningful conceptual history of social capital.

The third and more promising line of enquiry takes us to some of the classical authors and preoccupations in social theory. One of the key authors, particularly for the reconstruction of the way in which social capital relates to codes of civicness and the practice of democratic societies (themes made central by Putnam's path-breaking work on differential levels of institutional performance in the Italian regions) is undoubtedly Alexis de Tocqueville (cf. Putnam 1993: 89–90 and 2000: 292; Ostrom and Ahn 2003: xxv; Fukuyama 2000: 7). In his analysis of mid-nineteenth-century American democracy, Tocqueville (1988) emphasized the importance of an extended network of free associations, playing the role of the independent and vigilant eye of society over the political and administrative sphere. Besides being one of the bulwarks against despotism (in democracy, also against the despotism of the majority), civil associations perform a variety of educational functions. Although mainly dealing with 'small affairs', they make people conversant with the tasks of politics and administration, whilst giving to the people themselves a real taste for self-rule. In Tocqueville's view, associations socialize people, forcing them to recognize their obligation to others, while schooling them in public discussion, in how to press their claims, and stand up for their own rights; in short, they act as schools of public spirit and civicness. There is no doubt that the Tocquevillian analysis is an important intellectual strand in social capital theorizing, and we shall come back to it.

Along the same line of a return to the classics, Arnaldo Bagnasco (1999) has indicated another possible connection, by pointing out that, particularly in the way in which Coleman uses the concept, this poses the question of the nature of modern society, and of its definition in opposition to traditional forms of society. The way in which social capital is produced as a by-product of personal social relations, but is nonetheless vital for the working of the more anonymous form of exchanges characterizing modern societies, stands to show that modernity comes to a price, and that only by restoring certain more traditional and primordial elements societies can actually work (Bagnasco 1999: 78–9). Tönnies's classical distinction between *Gemeinschaft* and *Gesellschaft* comes immediately to mind, but also more generally the ambivalent role that the idea of 'community' plays in both sociological analysis and normative discourses (Nisbet 1970: 47–106; Bagnasco 1999: 7–41; Bauman 2001: 1–6). As we shall see, this line of argument intriguingly intersects with the Tocquevillian strand of the social capital idea.

Finally, Michael Woolcock (1998) and Alejandro Portes (1998) have further extended the references to the classics by linking different aspects and sources of social capital to some of the main currents of sociological thought, and to modern social theory in general. Woolcock runs a series of interpretative lines at ones. On the one hand, he rightly points out that social capital has been theorized as a background condition for the Smithian 'invisible hand'. This was not, however, something that had entirely escaped the early debate on the emergence of commercial and market society, where the centrality of unbridled self-interest did not go entirely unchallenged. Many eighteenth-century authors thought that virtue on its own was not a sufficient motive for action, but recognized that self-interest was often mitigated by natural and social elements such as the moral sense, sympathy, and manners and civility, which provided human behaviour with either the means or the incentives to balance the self-interest motive with social norms of cooperation (Woolcock 1998: 150–60). This line of thinking, Woolcock suggests, was partly obscured by the triumph of political economy and utilitarian philosophy in the nineteenth century, only to make a comeback towards the end of the same century in the work of classical sociological thinkers such as Durkheim and Weber, and more generally in Marxist thought.

On the other hand, Woolcock traces a whole series of more immediate influences on the formation of the idea of social capital by pointing at the 'new sociology of development' and 'comparative institutionalism' as the literatures that have most contributed to sharpen the analytic and theoretical instruments for capturing the two fundamental types of social ties, 'embedded' and 'autonomous', that in his view characterize different forms of social capital at micro- and macro-level (Woolcock 1998: 161–7). Both lines of ascendancy suggested by Woolcock, from social capital to other prototypical ideas, have much to recommend them, as they point to the important difference between under- and over-socialized conceptions of human action and to the way in which individual action relates to the formation of the social order, all elements that seem central to the idea of social capital.

Portes's own reconstruction of the intellectual sources of social capital ploughs through the very same ground. First Portes and Sensenbrenner (1993), and later Portes (1998) have suggested a more systematic way of establishing the link between social capital theory and the classics of sociology by looking at social capital not so much as a property of the social structure, as suggested by Coleman, but as a series of collective expectations for action and the motivations that give rise to them. The result of their analysis suggests that there are four main types of social capital, corresponding to four specific sources of motivation and expectation that are relevant for action, and each of which can be found in classical sociology.

According to Portes and Sensenbrenner, what in social capital theory are considered as the stock of 'resources' that social networks and relations provide for individuals are not very different from the expectations we have that individuals act following certain motivational patterns, besides those based on pure self-interest. In other words, there are stable motivational patters, giving rise to stable expectations, which directly depend on the way in which we relate to others in situations in which economic rationality does not attain (or does not seem to be the main motive for action). Amongst the relation-based motivations, Portes and Sensenbrenner distinguish between the ones based on 'principled' (or over-socialized) sources and the ones on 'instrumental' (or under-socialized) sources (cf. tables at Portes and Sensenbrenner 1993: 1326; Portes 1998: 8; also Pizzorno 1999). 'Value introjection' and 'bounded solidarity' are motivational sources of the over-socialized kind. The former refers to the way in which people are socialized into a system of values and obligations, and it has its classical source in the work of Durkheim; while the latter is the expression of the way in which one's attachment to a group becomes a principled motive for action. Portes and Sensenbrenner (1993: 1324–5; and Portes 1998: 7–8) link this to the Marxist analysis of the development of class consciousness in the proletariat. Relation-based motivations of a more instrumental kind are instead 'reciprocity exchanges' and 'enforceable trust'. The former represents a system of exchanges based neither on money nor on exactly quantifiable material goods, but on social goods often of a more intangible kind. These social goods are exchanged on the basis of the reciprocity principle (and reciprocity expectations) rather than on strictly market-based mechanisms. Hence, there is no expectation that repayment for one's performance in a transaction will be scheduled at a specified time, though Portes seems to imply that more than on generalized reciprocity this system depends on the (self-interested) expectation that the social chits that people accumulate 'will be fully repaid in the future' (1998: 7). Simmel is the classical author behind this motivational system. Finally, by enforceable trust, Portes and Sensenbrenner (1993: 1325) mean the way in which individuals may be motivated to act according to group expectations, because the individuals expect to gain some advantage by acting as members of the group: either because of greater opportunities for gain, or because this may enhance their status and social standing, or because the group's sanctioning capacity offers them protection. The author that Portes and Sensenbrenner mention in relation to enforceable trust is Weber and his conception of substantive rationality in market transactions, but Portes (1998: 8–9) also refers to Durkheim's theory of social integration and to the fact that enforceable trust, differently from reciprocity exchanges, depends on the role played by the social structure as a whole.

Although of considerable intrinsic interest, when considered from the point of view of the reconstruction of the intellectual sources of social capital, this interpretation is somewhat disconcerting. For, as Portes himself notes (1998: 1), it makes the intellectual history of social capital almost an impossibility, given that according to the scheme suggested by Portes and Sensenbrenner such a history would embrace no less than the whole of classical nineteenth-century sociological thought. In fact, Portes's own take on the intellectual coherence of the social capital project is even more critical. He warns against 'jumping [too] quickly onto this bandwagon' (Portes 2000: 10) on the ground that social capital has been applied too widely, and in too heterogeneous theoretical frameworks. But the real criticism underlying his reconstruction of social capital on the basis of the four sources of non-economic motivation is that social capital theory risks putting old wine in new bottles. As Raymond Boudon has recently remarked, 'social capital is just a word for well-known mechanisms' (2003: 2). What social capital theory does is to relabel them in order to make them more appealing. Worse, by bringing different mechanisms under the same conceptual label, social capital may risk obscuring rather than illuminating the micro-mechanisms motivating people to action. The question is therefore whether there is something distinctive about the mechanisms highlighted in social capital research, or whether social capital theory adds something new to such mechanisms by bringing them together.

One way of tackling the problem is to look at the emergence of social capital not so much as the establishment of a new technical concept but as that of an approach and research perspective, or perhaps of an idiom and a vocabulary of ideas. Looked at in this way, there may be more to recommend social capital than considering it as a relabelling exercise. In the reminder of this chapter I shall try to show that, to date and from a more substantive perspective, the main contribution of the social capital literature has been to pose afresh the issue of the nature of the social order by redirecting our attention to three important questions. I take these to be the question of *sociality*, by which I mean the explanation of the main motivational drives of human behaviour and action in social contexts; the question of *sociability*, which is more specifically concerned with people's tendency to associate with others or in groups; and the question of *social embeddedness*, which has to do with the mechanisms of social integration and reproduction. These questions comprise what I propose to describe as the social capital *research programme*, which has gradually taken shape in the last twenty years. The three questions are obviously interconnected. Part of the attractiveness of the social capital research programme lies in the fact that it has tackled them together; though I think they can be analytically disentangled at least for our present purposes. In my discussion, I shall associate each of the questions to one of the three main authors who have contributed to establishing the social capital research agenda, but this should not be taken as implying that their work has no relevance for the other questions.

Before moving on to the analysis of these three questions, it should be added that the success of the social capital research programme is not merely linked to having raised such questions, but in having done so by bringing together different disciplinary perspectives, and in particular by reconnecting the economy to the social. Moreover, it has offered a ground on which to reconcile the micro- and macro-foundations of social action and social order. These more methodological virtues have greatly contributed to establishing social capital as a distinctive line of research, making an important contribution to contemporary social theory.

2. Sociality

The work of James Coleman is probably the best place from where to start a discussion of the question of sociality, as defined above, and of how it relates to social capital studies. Besides offering an analytical elaboration of the theory of social capital, Coleman, more than Bourdieu and Putnam, clarifies his main intention in offering such a theory. As Woolcock (1998) and Portes (1998) have remarked, the main scope of Coleman's theoretical project is to overcome the sharp dichotomy between over- and under-socialized theories of human behaviour. This is the starting point both of his 1987 piece on norms as social capital and of that published the following year on social and human capital (Coleman 1988). The theme figures prominently in his *Foundations of Social Theory* (1990), where the latter piece is more or less reproduced as the chapter on social capital. Interestingly, several years earlier Granovetter (1985) had published an essay on social embeddedness, which started from the very same premisses, although, as we shall see, with a slightly different approach to the problem.

Neither Coleman nor Granovetter were the first to pose the problem; it is interesting to note, however, the way in which Coleman framed it. The clue lies in the way in which he describes the 'virtues' he attributes to the respective approaches. According to Coleman, the under-socialized approach, associated with economic discourse and rational choice, has its main virtue in offering a viable 'principle of action'; while the over-socialized approach, associated to sociological discourse at large, has on its side the 'ability to describe action in social context and to explain the way action is shaped, constrained, and redirected by social context' (Coleman 1988: 95). Coleman's intention seems to be an attempt to distinguish, in the traditional view of economic rationality, the principle of self-interest, which motivates agents and which needs preserving, from an unrealistic view of atomized individuals, which should be jettisoned. In other words, Coleman wishes to place what he describes as the 'engine of action' of economic theory (1988: 96) within a *social* context. In his view, this is a somewhat different enterprise from that in which other sociologists, such as Granovetter and those who wish to correct the operations of the market by giving more attentions to institutions and organizational structures, are involved:

> My aim is . . . to import the economists' principle of rational action for use in the analysis of social system proper, including but not limited to economic systems, and

to do so without discarding social organization in the process. The concept of social capital is a tool to aid in this. (Coleman 1988: 97)

The difference between his and other revisionist approaches, as Coleman makes clear in the following sentence of the same piece, is that he is keen to avoid a 'pastiche', a compromise on both the traditional methodological assumptions of self-interest and individual isolation. His aim is instead, as his analysis of norms reveals, to make the social structures emerge from the way in which self-interested individuals act when they are posed in a social context that, as he says, *shapes*, *constrains*, and *redirects* action.

For Coleman, the primacy of self-interest as a motivational factor and of rational choice as a methodological approach is not in question. Revealingly, his piece on norms was published as part of a collection on *Economic Imperialism: The Economic Approach Applied outside the Field of Economics* (1987), something that, at least in his case, may offer scope for some of the criticisms moved against social capital theory that ultimately this is an economistic theory (Fine 2001). Coleman's strategy for reconciling under- and over-socialized approaches is rather lopsided. His understanding of social relations is very much based on an individualist premiss, insofar as he conceives them as emerging from the interest the individual has in the resources that are under someone else's control.

In practical terms, Coleman's strategy for reconciling under- and over-socialized approaches consists in two moves. The first is to try to explain the origins and internalization of norms, or of others obligations and social structures facilitating social cooperation, as the ultimate result of individual rational calculation of either their short- or long-term interest. The second and crucial move in social capital theory is to suggest that the social structures created in this way function not just as constraints for self-interested individuals, but also as resources for their self-interested actions. In this sense, of the four relation-based sources of motivation analysed by Portes and Sensenbrenner, Coleman seems to favour those based of a more instrumental nature (exchange reciprocity and enforceable trust).

Coleman's own solution to the issue of the production of social order, however, is not the real point here. Of greater relevance to the kind of analysis I am trying to propose is the way in which the social capital research programme builds on the general dissatisfaction with traditional views of sociality, and in particular how this is treated from an economic and rational choice perspective based on the 'selfish premise'. In this respect, the social capital literature is part of a more general trend in social theory that either questions or wishes to modify the selfish paradigm by placing it in a more socialized context.

Let me briefly review the different grounds on which this attempt has been made, many of which are germane to social capital theory. Even from the perspective of traditional economic analysis unreconstructed self-interest has increasingly been regarded as problematic due to the recognition of many instances of market failures, of the importance of externalities, and more specifically of the diffusion of 'opportunistic' behaviour, what Williamson (1975: 255) describes as 'self-interest seeking with guile', which exploits transactional advantages by 'devious' and 'dissembling' strategies (cf. also Granovetter 1985: 487–8). This 'empirical' recognition of the social failures of self-interested action does not directly questions the motivational story of economic behaviour, but some of the assumptions about the beneficial effects of markets and free competition, the Smithian 'invisible hand', or at least the oversimplified story presented of it.

A similar story about the self-defeating nature of self-interest in certain circumstances is the one emerging from the paradoxes of rational choice theory, which show that the rational pursuit of self-interest can produce sub-optimal social solutions. As shown more extensively in Chapter 3 of this volume, the development of the second-generation collective action literature, with a more specific interest in repeated games, tells the story of the way in which agents start internalizing others' behaviour, while they build their own expectations and rational calculation on a longer-term perspective, which is what Coleman saw as the main mechanism through which self-interested individuals could internalize the obligations embodied in norms and social structures. From the perspective of social capital studies, this modification of the selfish premiss by the internalization of a feedback loop is what is often associated to the role of trust and reciprocity as long-term beneficial strategies, and as important backgrounds conditions for reducing transaction costs in economic activities.

There is finally a third group of arguments that insists on the need to modify the simple story of human motivation inbuilt in the 'selfish premise', even when applied to economic behaviour. This develops a more radical criticism of the self-interest paradigm, questioning some of the important assumptions on which its success was built at the beginning of the modern era (cf. Hirschman 1977). These comprised three aspects at least: that self-interest is a dominant feature of human behaviour, while virtue and benevolence are scarce resources; that self-interest is a more stable, hence predictable, motivational pattern than other passions or charitable impulses; that self-interest is mainly to be judged on instrumental grounds. Each of these assumptions has recently come under criticism, and the social capital literature has both absorbed and given expression to these preoccupations.

Briefly, on the dominance of self-interest as a motivational pattern, Fred Hirsch (1977: 137–51) has talked of the 'moral re-entry' by which he means the fact that over-reliance on the corrective mechanisms of self-interested behaviour can in fact be counter-productive. As Smith had recognized, in order to rely on people acting on their own self-interest, but without damage to the community, it was only possible insofar as individual behaviour was restrained both by the law and by 'built-in' moral restraints (Hirsch 1977: 137). Hirsch's crucial insight is that not only too much self-interest can be self-defeating, but that by relying almost exclusively on self-interest depletes the admittedly scarce stock of benevolence and morally motivated behaviour that it is nonetheless necessary for the smooth operation of social and economic transactions. Moral attitudes need practising in order to be kept alive. Even though we cannot rely too much on them as the basis of our normal economic and social interaction, we should not avoid using them on the basis of the fact that they are scarce. In this respect, moral attitudes do not work as a normal capital stock: they are not reduced as they are consumed; in some respect, and to a relative extent, they are reduced if *not* consumed (cf. also Hirschman 1984).

The other two challenges to the dominance of self-interest have come, on the one hand, from the observation that the traditional way of linking self-interest to revealed preferences is inadequate. This is so, because such assumption does not take into account the distinction between first- and second-order (or meta-) preferences, which is a crucial element in explaining not only people's 'self-critical' attitude towards their own behaviour, but also one important way in which people may change their behaviour and orient their action (cf. Sen 1977; Hirschman 1984). On the other hand, self-interest has been challenged on the basis of the fact that it is often understood in purely instrumental terms, without recognition that often people engage in activities not just for their instrumental benefits, but also because of more intrinsic goods, which sometime come from what Hirschman has called the 'fusion of striving and attaining' (1984: 92). This observation is important not only in order to assess how people act and behave, but also more specifically for understanding the way in which they enter into social relation with each other and how and why they associate. This introduces us to the second main question on which social capital has made a contribution to social theory—the issue of 'sociability'.

3. Sociability

This is how Georg Simmel describes the 'impulse to sociability':

> To be sure it is for the sake of special needs and interests that men unite in economic associations or blood fraternities, in cult societies or robber bands. But above and beyond their special content, all these associations are accompanied by a feeling for, by a satisfaction in, the very fact that one is associated with others and that the solitariness of the individual is resolved into togetherness, a union with others. . . . typically there is involved in all effective motives for association a feeling of the worth of the association as such . . . (Simmel 1971: 128).

Sociability in this sense is different from what we have discussed in the previous section under sociality, where what we were interested in was the motivational structure of people's action and behaviour in society. Here the problem is more about the impulse to enter in more close relation or association with others. Simmel's way of posing the problem escapes Coleman's mainly instrumental conception of reason and self-interest, but it is closely related to what has become an important preoccupation of the social capital literature because the great importance that, particularly in Putnam's version, has been given to the role of associations and networks, and how they sustain and reinforce the more general web of generalized trust and reciprocity in society, while nurturing moral codes such as that of civicness.

To be sure, the identification of the code of civicness with social capital is already in Coleman:

> a prescriptive norm within a collectivity that constitutes an especially important form of social capital is the norm that one should forgo self-interest and act in the interests of the collectivity. (1988: 104)

In the *Foundations* (1990), Coleman extends this conception of social capital to 'ideologies'; and this line of argument about the more normative and culture-based understanding of social capital has been enthusiastically embraced by Fukuyama (2000: 13), who identifies religion as historically the main source of social capital in the form of the imposition of moral codes of conduct. In

Coleman's theory, the extension of social capital to civicness and ideology is possible because he defines social capital functionally, as any social construct or relation that can be used by individuals as a resource in order to orient and facilitate their action towards a particular end. For him, social capital is an abstract conception that has a mere functional value, but is indifferent to the 'content' of the particular social relation or construct (norm, ideology, information, personal relation or help, reputation, etc.) that, in particular circumstances, function as 'resources' for action. But Fukuyama's conception is strongly culturalist, in the sense of the civic morality that Banfield (1958), for instance, opposes to 'amoral familism' (which in itself, and from Coleman's perspective, could easily qualify as 'social capital' in the family).

Here lies the importance of associations and networks; and of sociability in the sense ascribed to it by Simmel, as a different way of explaining how social capital works and how it is generated. Within this context, the importance of Putnam's contribution lies in the way in which his use of social capital seems to walk a fine line between a more culturalist (or community-based) and a structural (or association-based) interpretation. This distinction goes back to the two traditions that were mentioned towards the beginning, the one that looks at Tocqueville and to his idea of associations as educational instruments for social cooperation and democracy, and the other that takes the idea of community (*Gemeinschaft*) to mean, as in Tönnies's formulation, 'all kinds of social co-existence that are familiar, comfortable and exclusive' (2001: 18).

Putnam's book (1993) on the institutional performance of Italian democracy across its regions begins by constructing a causal link between the level of institutional efficiency and democratic involvement, on the one hand, and a broad notion of civicness, on the other. In the first part of the book, he correlates civicness to associational thickness and to other indicators about political awareness and involvement as far as the present time is concerned. But, somewhat controversially, he projects back into the past the experience of civicness, or lack thereof, on the basis of a general account of the different historical and ideological experiences of the Italian regions. The latter account of civicness is therefore strongly influenced by a reconstruction (in itself controversial) of the republican tradition in the Italian city states, which ultimately results in a strongly cultural notion of civicness, similar in form, though not in content, to the idea of 'civic culture', which had a strong impact in comparative political research in the 1960s and 1970s (Almond and Verba 1963; Almond 1980). Against such culturalist reconstruction of historical civicness, in the second part of the book, Putnam develops further the more present-minded associational view by linking it to the idea of social capital interpreted in a more structural way, by emphasizing the importance of horizontal networks, trust, and generalized reciprocity.

As remarked already, the central role that associations play in this interpretation of social capital is strongly reminiscent of Tocqueville's analysis of democracy in America, but also embodies a number of intuitions and arguments that have more recently been associated to the idea of civil society. Indeed, many tend to overlap the meanings of the two terms because of the similarity of claims made in both cases. So, both social capital and civil society have a descriptive component, but with a strong normative connotation; both of them have voluntary associations as part of their definition; and both are said to have a positive effect on the economy and political democracy. What is interesting for the purpose of our argument, is that the similarities between the general idea of civil society and social capital push the latter in a direction different from that of a culturalist interpretation of civicness. The elements highlighted by civil society are more akin to the idea of sociability as expressed by Simmel. If one allows for the rather abstract language of Hegel's work, one can find that same idea of sociability expressed in his discussion of civil society:

> ... the particular person is essentially so related to other particular persons that each establishes himself and finds satisfaction by means of the others, and at the same time purely and simply by means of the form of universality ... (1967: 122–3)

In other words, the way in which people relate to each other in order to satisfy their particular needs (or in order to associate in particular groups) opens up the possibility of larger forms of association and more universalistic conceptions of the community.

There are two further aspects of the association-based view of social capital that needs noticing; one is that, this view conceives associations more as forms of what has come to be known as 'bridging' social capital (cf. Narayan 1999: 13–15; Putnam 2000: 22–4; Field 2003: 65–70; see also Pizzorno 1999, who talks of 'relational capital'), or as the kind of 'weak' ties described by Granovetter (1973). Of course many associations are of 'bonding' type, but this conceptualization of social capital emphasizes the importance that associations have as a way of widening once social horizons and solidarities.

The second aspect is linked to the point from which this section started, that is the pleasure that people find in being part of an association, regardless of the more instrumental purposes of the association itself. From the point of view of social capital, this also raises the question that, even though social relations and sociability can be seen as producing resources that the individual can use for his or her self-interested pursuits, this is often the unintended result of activities that are pursued in the first instance with other aims in mind, either of a different instrumental nature, or simply of an expressive nature.

4. Social Embeddedness

We have now come to the third question that in my view characterizes the social capital research programme, and which will be here analysed briefly, for a proper treatment would require a more extended discussion. This question is partly related to the use of the term 'capital', and it is probably best treated taking Pierre Bourdieu's work as the foil for our discussion. Some criticisms of the idea of social capital have focused on what they regard as the improper use of the idea of 'capital', which in the present context they consider no more than a metaphor (Arrow 2000; Solow 2000). The main reason given is that in the case of social capital it is difficult to find the aspect of delayed consumption that seems to characterize the concept of economic or monetary capital. As Arrow puts it, in social capital 'there is no deliberate sacrifice in the present for future benefit ... The essence of social networks is that they are built up for reasons other than their economic value' (Arrow 2000: 4). For Solow, 'there is no past flow of investment' (Solow 2000: 7). As others have remarked (see Ahn and Ostrom in this volume), in certain cases, one can indeed conceptualize one's investment of time one makes in social relations, or the kind of trust one puts in others, as forms of investment. However, the main problem with such criticisms is that, on the one hand, they exaggerate the conceptual uniformity and material unity of the concept of economic capital, sometime taking it in the sense of 'capital goods' (which are indeed very heterogeneous in nature, while they need the introduction of the concept of 'value' in order to be made more homogeneous and calculable); on the other, they fail to distinguish between 'capital' and 'theories of capital', as suggested by Nan Lin (see his contribution to this volume).

If one looks at social capital from the latter perspective, and looks in particular to Bourdieu's contribution, one can easily see that what he means by 'social capital' is a theory of social reproduction which has important similarity with the Marxist interpretation of capital as a 'social relation', rather than a thing. The central aspect of Bourdie's own theory of social capital is indeed the importance of 'capital' as the accumulation of past relations, which contribute to determine the future:

> The social world is *accumulated history*, and if it is not to be reduced to a discontinuous series of instantaneous mechanical equilibria between agents who are treated as interchangeable particles, one must reintroduce into it the notion of capital and with it, accumulation and all of its effects. (Bourdieu 1986: 241; emphasis added)

What Bourdieu is here suggesting is that the past has a strong hold on both the present and the future and that it is almost impossible for one to change 'one's social status quasi-instantaneously', like in the game of roulette (ibid.). Particularly in modern societies, the power of the past over one's life and across generations takes mainly the form of economic capital, but also of cultural capital (by which Bourdieu means in part human capital, but also other more symbolic aspects of cultural advantage in society), and finally of social capital. By this, he means the kind of power that comes from being part of a group, and which can take the form of both status and material privilege.

This view of social capital clearly focuses on the importance of group membership, and other more instrumental advantages that come from being connected to a network, as important features of social stratification and how this is reproduced in society and through time. It is also linked to another important line of research, which from the work of Marcel Mauss (1990 [1924]) onwards has focused on the 'gift' as part of a broader economy of symbolic exchange, which encompasses ideas of honour, public esteem, trust, reciprocity, and more generally solidarity, all of which contribute both to the formation of the social order and to the distribution of power within it (Douglas 1990; Komter 1996).

This is quite a different perspective from that suggested by the work of Coleman and Putnam, but it intriguingly connects to literatures as diverse as those on social power and reproduction, on path dependency and the importance of the past, on network theory, and on cultural reproduction. At first this may seem a rather miscellaneous list of fields of research, but on closer scrutiny there is are important moment of contact between them and social capital theory may contribute to elicit the synergies between them.

5. Conclusion

The point just made at the end of the last section may perhaps stand as an apt conclusion to the argument that I have developed in this chapter. The major strength of the introduction of the idea of social capital has probably been its capacity to re-energize a series of lines of research in social theory that cut across different disciplines in the social sciences. Social capital as a research programme has put back to the centre of discussion the nature of the social order in modern society. By taking seriously the economic paradigm of action and behaviour it has, however, contributed to the challenge and modification of some of its central tenants, redefining the role of self-interest in connection with other motivational drives, while paying closer attention to the idea of sociability and to the way in which human action takes place in socially embedded contexts.

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PART II

DEMOCRATIC POLITICS

Introduction: Social Capital and Democratic Politics

Jan W. van Deth

1. Democratic Challenges

Democracies cannot survive the centripetal forces of rivalry and the predominance of group interests if a minimum level of loyalty and affection is lacking. Without some feeling of support for the way political decisions are taken, unfulfilled demands and payouts from the costs of social arrangements would gradually result in discontent, frustration, protest, or withdrawal. Nowadays there are complaints everywhere about a growing number of virtually unsolvable social and political problems in modern democracies. Particularly prominent are grievances about declining feelings of solidarity and community, public withdrawal from the 'dirty' realm of politics, rapidly disappearing political confidence, a spread of distrust and cynicism, and the decrease of social and political engagement—to mention only a few examples. A widespread consensus has developed that a revival of civic engagement can compensate for these manifold deficiencies of modern democracies. The concept of 'social capital' has been introduced as a remedy for a number of problems, and as the only feasible way to combine the claims and expectations of an emancipated and individualized citizenry on the one hand with the requirements of democratic decision making in mass societies on the other. In close connection to social capital the broader concept of civil society is used. This 'occupies the middle ground between government and the private sectors' and is characterised as being 'public without being coercive, voluntary without being privatized' (Barber 1995: 281). The claims made about the benevolent consequences of these concepts are anything but modest: 'social capital makes us smarter, healthier, safer, richer, and better able to govern a just and stable democracy' (Putnam 2000: 290). Even if only one of these claims turns out to be true, studying social capital would be extremely worthwhile.

Working in the spirit of Alexis de Tocqueville, many authors assume that voluntary associations are of crucial importance for democracy. On the basis of his seminal work on Italy, Putnam concluded: 'Good government in Italy is a by-product of singing groups and soccer clubs' (1993: 176). Consequently, the problems encountered by many modern democracies are partly the result of a decline in membership of many types of associations, clubs, groups, and organizations (Putnam 1995 and 2000). Whereas voluntary associations and networks establish the structural aspects of social capital, it is norms, values, and, in particular, trust among citizens that can be seen as cultural aspects of social capital (cf. Putnam 1993; Fukuyama 1995; Inglehart 1997). In fact, trust seems to be a consequence of the other aspects mentioned, since trust 'can arise from two related sources—norms of reciprocity and networks of civic engagement' (Putnam 1993: 171). A decline of social capital in modern democracies, then, implies a reduction of both trust and of citizens' engagement. This decline of social capital is seen by many authors as the ground for the growing impotence of political systems to deal effectively and democratically with various challenges. In turn, an increasingly emancipated citizenry will avert itself from politics and make the problems of collective decision making and democratic legitimacy even more severe.

Notwithstanding the appealing and popular aspects of these lines of reasoning, it is obvious that social capital does not provide a cure for each and every problem. Not even the most passionate adherents of the benign consequences of social capital investments defend the idea that social capital is a panacea for all difficulties of modern democracies. What is widely accepted, however, is the notion that modern democracies have no real chances of survival if a lack of social capital is evident. Several interpretations are available for this relationship between social capital and democracy. The essays comprising this part of the Handbook address the issue in different ways, but they are all interested in weighing up the empirical evidence available to examine the claim that *social capital is relevant to both institutional performance and citizens' participation in democratic regimes.*

2. Making Democracy Work?

A straightforward interpretation of the possible benevolent consequences of social capital for democracy can be based on a conception of social capital as a relationship among individuals; that is, as a property of individuals, found in networks of individual citizens. The existence of mutual trust and norms of reciprocity among citizens reduces the risks that a cooperative and engaged individual will be forced to pay the bill left behind by cheating partners.

If social capital reduces the transaction costs of cooperation, and solves the free-rider problem, then engagement in democratic decision making—which mostly deals with collective goods—will be more widespread among citizens commanding relatively high levels of social capital than among other people. For this interpretation, the structural aspects of social capital in particular seem to be relevant because they facilitate the development of trust and norms of reciprocity. In turn, the diffusion of these norms and values might establish another stimulus for engagement if people are willing to act because other people behave fairly, decently, or in some ethical way. But even without emphasizing the role of trust and norms, social involvement promotes the development of political engagement. Reviewing the literature in this field in the early 1970s, Olsen noticed that mobilization theories in particular focus directly on the effects of social involvement on citizens' level of political engagement. Like Verba and Nie (1972), he concludes that the opportunity provided by voluntary associations to develop one's skills and competences plays an important role in the process of the mobilization of people for political goals. A similar line of reasoning from a radical-democratic perspective was presented by Evans and Boyte (1992) with their plea for 'free spaces' in order to provide people with the opportunity to develop the skills and the attitudes of mature, independent democratic citizens.

Particularly because voluntary associations are not usually involved in political actions, they function as a Tocquevillian 'school for democracy'. Associational involvement implies higher levels of social capital, which will be matched by higher levels of political engagement.[1] This remarkable expectation has led to a revival of ideas about the benevolent aspects of voluntary associations for democracy. Yet these kinds of interpretations seem to overlook two rival interpretations. Firstly, the amount of diversity and disagreement encountered in associational and social contacts might be a strong incentive to *reduce* political engagement (cf. Huckfeldt et al. 2001 or Eliasoph 1998). By introducing the concepts of 'bonding' and 'bridging' social capital, the questions about the homogeneity and heterogeneity of social networks have been more explicitly addressed. From a democratic perspective, positive developments are more likely to come from 'bridging', heterogeneous organizations. But since the great majority of associations are of a 'bonding' kind, one cannot make a blank assumption that voluntary associations *in general* are benign for democracy.

Secondly, from the individual's perspective, social capital has the same kind of consequences as any other type of capital: it increases the opportunities for autonomy as well as the scope of the available opportunities. A more autonomous and resourceful citizen can be expected to be more reliant on his or her own capacities in order to deal with the problems and challenges of everyday life.[2] Politics—as a form of collective action with public outcomes—becomes less salient for shaping one's own life; thus turning into 'the politics of marginal issues' (Hardin 1999: 44). This is not to imply that politics becomes less important in absolute terms. However, in comparison with other activities and opportunities, political engagement diminishes in significance for the individual (cf. van Deth 2000). Because a citizen can command relatively high levels of resources, he or she is less interested in engaging in collective action, which is an important characteristic of democratic decision-making processes.

Besides these conceptualizations of social capital as an individual property, a second line of reasoning considers social capital as a collective good, which is by definition available to each citizen. If a society is characterized by a high level of social capital as a collective good, then every person living in that society will enjoy the benefits of this situation, irrespective of his or her contribution. You do not even have to be a member of one single organization, or show a minimum level of trust in other people, in order to profit from the fact that in this society the transaction costs for social exchanges are low.

Just as with the conceptualization of social capital as an individual resource, the conclusions based on the second variant are not unambiguous. Why would a rational individual be engaged in political activities if he or she lives in a society with high levels of mutual trust and norms of reciprocity? In such a society it would be relatively unlikely for political decisions that do not take into account general interests to be carried out. The expected difference between a decision in which one participates directly, and one in which one does not, is negligible, even without accounting for the fact that extremely low likelihood that one can influence decision making in large democracies. Therefore a high level of social capital conceptualized as a collective good will—*ceteris paribus*—reduce the willingness of citizens engage in collective decision making processes such as politics. Citizens' motives are irrelevant, because, in cases in which society are characterized by relatively high level of social capital, it would seem that rational calculation, laziness, or preferences for purely individual activities are likely to result in political apathy.

The debates about the presumed relationships between democracy and social capital have considerably sharpened our understanding of the conditions for preserving and developing democracy. Yet the exact nature of the impact of social capital on democracy is still disputed. From an extensive overview of the literature, Theiss-Morse and Hibbing conclude that 'good citizens need to learn that democracy is messy, inefficient, and conflict-ridden. Voluntary associations do not teach these lessons' (2005: 227). Armony (2004) goes even further by speaking of 'the dubious link' when referring to the relationship between 'civic engagement and democratization'. Less fundamental criticism has been provided by empirical researchers challenging straightforward Tocquevillian interpretations that do not seem to be relevant for European democracies in particular (cf. Gabriel et al. 2002; van Deth et al. 2007). Furthermore, many interpretations tend to focus on interpersonal and social forms of trust and reciprocity, whereas political confidence appears to be much more significant for democracy.

These critics challenge the presumed straightforward positive impact of social capital on democracy as presented by neo-Tocquevilleans. Approached from a clearly different perspective, social capital could also be seen as a consequence of well-functioning democracies, rather than a cause. Specific forms of democratic decision-making processes (for instance, the ways in which public decisions are taken and public policies elaborated, or the ways in which civil services function) favour the production of social capital and could foster a cumulative process where social capital and democracy strengthen each other. No discussion about the relationship between social capital and democracy, then, is satisfactory unless the direction of the presumed causal mechanisms is made clear.

3. The Contributions to Part II

In this second part of the Handbook, the claim that social capital facilitates 'a just and stable democracy' is analysed from various perspectives and confronted with results of empirical analyses. The six contributions are restricted to specific aspects of this claim; it is neither feasible nor desirable to develop a comprehensive theory of the problems and prospects of modern democracies in the present publication. The set of contributions, on the other hand, covers various levels of analyses and political decision-making processes and deals explicitly with the complicated question about causality.

In the first two contributions the relevance of the structural and cultural aspects of the social capital concept for democracy are examined. Sigrid Roßteutscher starts with a macro-level perspective on the relationship between social capital and democratic citizenship (Chapter 8) by analysing data for no less than seventy societies. From these cross-national analyses at the aggregate level it is clear that some countries possess high levels of social trust and a well-developed associative sector, whereas other countries are characterized by low trust levels and low levels of associational life. However, quite a number of countries possess a lot of one component and rather little of the other. At the aggregate level no clear relation between structural and cultural aspects of social capital can be detected. Furthermore, social capital is apparently relevant in Western countries, with much less empirical resonance in the rest of the world. Yet in both Western and non-Western countries, in democracies and autocracies alike, individuals who participate in group life are the most supportive of democratic citizenship. This finding underlines the importance of the distinction between the analyses of individual-level data and the use of aggregate data in discussions about social capital and democracy.

The various types of trust—the main cultural aspect of social capital—are the central topic of the next contribution. In his analyses, Ken Newton (Chapter 9) examines the relationship between trust and political orientations from several perspectives (including the complicated question about causes and consequences). The most important and interesting substantive questions about political trust deal with its origins and with the explanations of its decline in Western democracies. In addition, the problem of sorting out causes and effects in relations between social trust and political trust, and of deciding between top-down and bottom-up theories of cause and effect are discussed. The key part of this contribution is a case study of four democracies and the way their performances are related to changing levels of trust. These four studies suggest that social capital has little or nothing to do with political trust and confidence, but that political performance is crucial for understanding both.

The cake is cut differently in the third contribution to this part, where Bo Rothstein and Dietlind Stolle reverse the neo-Tocquevillean arguments and look at the impact of political institutions on generalized trust (Chapter 10). Starting with a review of current approaches explaining the sources of generalized trust, they develop the causal mechanism of the institutional theory of generalized trust, and situate the concept of social capital more squarely in the realm of public institutions. The institutional theory of generalized trust developed in this way encompasses macro-and micro-links which are supported by empirical evidence. From these considerations and analyses it is clear that generalized trust can be influenced by the institutions in which it is embedded.

The role of voluntary associations in democracies attracted the attention of social scientists long before social capital and civil society became popular concepts. In his contribution on interest groups and political decision-making processes, William Maloney stresses this continued attention (Chapter 11). He emphasizes that the notion that groups are 'manufacturers of concern' has become increasingly important. Accordingly, this chapter provides a critique of the contemporary role of groups in advanced democracies. It is clear that groups deliver many benefits to democracy in terms of policy making, representation, social and political involvement, societal integration and stability, as well as direct and spill-over social capital effects such as generalized trust and reciprocity. However, it is also plain that the group system has many blemishes, including the non- and under-representation of certain interests, voice inequality, skewed involvement—to mention only the most important problems.

Since social capital relies on personal contacts and social networks, neighbourhood politics might be the crucial test case for the examination of the opportunities to improve democracy by stimulating social capital investments. Herman Lelieveldt discusses the relationships between social capital, neighbourhood problems and the ways residents try to tackle these problems (Chapter 12). On the basis of an extensive review of the literature it becomes clear that social capital acts as a double-edged sword: on the one hand it may help reduce the number of problems a neighbourhood and its residents face, but on the other hand social capital may facilitate activities to address or prevent these neighbourhood problems. As it turns out, the relationships are much more complex. Recursive relationships seem the most plausible: activities and problems may also affect levels of social capital, and, as such, a neighbourhood's capacity to take care of its problems.

The final contribution to this part is addressed to multiculturalism as one of the most serious challenges to modern democracies. Meindert Fennema and Jean Tillie start from the fact that large-scale immigration to Western Europe has created a series of ethnic minority groups and the (re-)emergence of ethnic cleavages (Chapter 13). Their empirical study of migrant networks and activities shows that differences in political participation of the largest ethnic minority groups can be explained by differences in social capital embedded in the different ethnic communities. Yet organizational membership per se is only a partial indicator of individual social capital. At least two additional indicators should be taken into account: the social network of the (ethnic) citizen and the social capital of the organization, as reflected in the connectivity and the density of the organizational network of the (ethnic) community.

Notes

1. Notice, however, that even in clearly non-political organizations, 'exposure to political communications is not frequent, but neither is it rare' (Verba, Schlozman, and Brady 1995: 373).
2. For that reason 'social trust is the prerogative of the winners in the world' (Newton 1999: 185).

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CHAPTER 8

SOCIAL CAPITAL AND CIVIC ENGAGEMENT: A COMPARATIVE PERSPECTIVE

SIGRID ROßTEUTSCHER

1. Introduction: Two Stories of Social Capital

Social capital is a valuable asset for individuals. It makes one's life easier, improves one's health, enables one to do better in school and at work, and—more intriguing from a social scientist's perspective—it provides society with better-informed citizens, with useful and transferable social skills. In sum, individuals in the possession of social capital are better democrats than individuals lacking such a resource. Putnam and others (2000) have given ample evidence for the beneficial impact of trust and social connectedness on individuals' happiness, health, and democratic habits. This is *one* part of the story. However, Putnam (2000: 236) also claims that societies with high stocks of social capital are better places in which to live. In his groundbreaking book on Italy, Putnam argues that 'a dense network of secondary associations' contributes to 'social collaboration' and thus leads to 'effective democratic governance' (Putnam 1993: 90). That is the *second* part of the story: social capital improves the quality and health of democracy writ large. This argument has also become common wisdom: 'Communities characterized by high levels of voluntary activity are in many ways better places to live: the schools are better; crime rates are lower; tax evasion is less.

The two arguments are not identical. The first speaks of the micro-level: individuals who trust others, and individuals who are members of voluntary associations, behave in a more democratic, participatory mode. The second argument views social capital as a trait of communities, nations, and societies as a whole: if a nation has high stocks of social capital at its disposal, citizen engagement will be high and so its government will be better controlled, more responsive and democratically efficient. Logically, both arguments are intimately related. Empirically, however, this is not always the case. There are numerous publications which show massive and theoretically sound relationships at the aggregate level, but meagre, sometimes even counter, theoretical effects at the individual level (e.g. Newton 1999; Newton and Norris 2000; Hall 2001; Gabriel et al. 2002). This chapter examines relations between social capital and civic engagement at the aggregate level of analysis. It begins by summarizing why so many authors believe that large reservoirs of social capital lead to a 'just and stable democracy' (Putnam 2000: 326), independent of the question as to whether individual activists are better democrats or not. Next, the chapter examines stocks of social capital in different nations and regions of the world. Finally it discusses how (and why) social capital (i.e. stocks of social capital) relates to the quality of democracy. Using the fourth wave of the World Values Survey (conducted around the year 2000) the chapter compares social capital and aspects of democratic citizenship in seventy countries.

2. Social Capital and Democratic Citizenship

Social capital has been related to a countless number of democratically desirable outcomes. Putnam, who (re-)opened the social capital debate with his book on Italy, compared southern and northern Italy's reservoirs of social capital and related those to the highly divergent government performance in both regions (Putnam 1993). Others, such as Uslaner (2003) or Rothstein and Stolle (2003; see also Chapter 10 in this volume) relate social capital to the strength and fairness of welfare arrangements. Levi (1998) and Brehm and Rahn (1997) stress a connection between levels of social capital and type and style of political systems; Offe (1999), Misztal (1998), and Inglehart (1999) see a relationship to the quality of democratic government, while Molenaers (2005) emphasizes social capital's potential role in reducing social and political inequality. This list could be continued and several chapters in this volume deal explicitly with the association between social capital, on the one hand, and socially, economically, or democratically desirable outcomes, on the other. The scope of this chapter is more modest: social capital—trust and participation in voluntary associations—is portrayed as a core resource in generating an active and committed citizenry. No democracy can survive without citizen participation and civic engagement, at least at some minimum level. Without participation, incumbents would hear nothing about the preferences of their citizens, no government control would take place, and the legitimacy of the regime would be in erosion (compare e.g. van Deth and Elff 2004; van Deth 1996). Nevertheless, many prefer not to participate, which raises the question as to why this might be so.

Verba, Schlozman, and Brady (1995: 269) argue that individuals may choose *not* to participate politically 'because they can't; because they don't want; or because nobody asked'. In the frame of this Civic Voluntarism model, non-participation is thus a result of three handicaps: lack of motivation, lack of resources, and lack of recruitment. Social capital helps to overcome all three obstacles.

Motivation

Trust is a precondition of any kind of collective behaviour. Without trust, there simply is no civic engagement (Almond and Verba 1963: 228). It is only when I am convinced that my associates will behave trustworthily, and that they will contribute to the common goal, that I will engage in collective action. I must also believe that they will not cheat me or leave me to do the work all alone. Without these preconditions I will not be prepared to join a collective endeavour. With few exceptions (voting, contacting politicians, spending money) political participation is just such a collective enterprise. Political participation is about joining groups, signing petitions, marching in demonstrations, founding parties, etc. It is, moreover, also about working together to improve the quality of the neighbourhood; it is about cleaning schools or playgrounds, or about starting initiatives for local traffic improvements or crime prevention. All this is impossible without trust in others. If social trust is *the* precondition for civic engagement, participation in voluntary association contributes in more than one respect to overcoming a lack of motivation. Engagement in secondary associations is a form of social interaction and integration, and is thus also a way to increase one's horizons by hearing about other people's problems, sorrows, struggles, or strokes of luck, success, and happiness. Engaged citizens may, for example, learn in their local choir that others are also unsatisfied with the town council's decision to collect litter only every second week, or that other parents with children no longer visit the neighbourhood playground because of dirt. Such conversations might be the nucleus of collective action. Motivation stems from the fact that one begins to understand that one's own problems are also the problems of others.

Resources

It is obvious that trust and associative membership cannot change a person's social status in terms of income, education, or profession. However, social capital contributes in a more subtle way to increase individuals' resource levels. Verba, Schlozman, and Brady's (1995) key concept is the notion of *civic skills*. These are general social and communicative competences such as writing letters, presenting an argument to a greater audience, preparing and chairing meetings. Voluntary associations offer ample opportunities to use such social or civic skills, and these can easily be turned into skills which are valuable in the field of politics, just as economic capital can be turned into political capital. Or, as Verba, Schlozman, and Brady write: 'Once honed, however, they are part of the arsenal of resources that can be devoted, if the individual wishes, to politics' (1995: 331). Briefly, participation in the non-political arena of voluntary associations increases one's level of resources—resources that can be put to use in the political arena. That avenue is particularly attractive to individuals who are otherwise resource poor, or, in other words, have little opportunity to improve their skills because they work in routine jobs without options to learn social or communicative skills (Verba, Schlozman, and Brady 1995: 330).

Recruitment

The question as to why people do not participate in politics has a simple answer: nobody asked them! Personal recruitment, or mobilization through private networks, is a powerful predictor of political participation (e.g. Hodgkinson 1995). People who are part of voluntary networks are far more often asked to participate politically or engage in social programmes than people who lack such network connections (Huckfeldt and Sprague 1995). Voluntary associations are a rich resource for recruitment and mobilization. Recruitment into politics takes place in two different ways: (i) through interaction with co-members and activists, (ii) through the organization itself. The first path is evident: members in associations communicate with each other, and thereby might touch on political issues and exchange information about channels of participation. Such exchanges can happen in each type of organization, even in the most apolitical sports and hobby associations where, under normal conditions, politics is a taboo topic, excluded from the usual range of conversations to avoid disharmony and group tensions (e.g. Eliasoph 1998). Somewhat less evident is why highly apolitical associations should mobilize their members to political ends. However, even a local football club might run into problems with the town council, or want money and help to renovate the local football pitch, or be asked to participate in an anti-drug campaign. Therefore, an encounter with the world of politics may be hard to avoid and 'every social organization will end up in the political decision-making process sometimes' (van Deth 1996: 394). Schattschneider's famous note that 'organization is itself a mobilization of bias in preparation for action' (1960: 30) expresses this fact nicely.

In short, social capital is a key resource in generating politically active citizens. Trust is a necessary precondition for any kind of collective engagement; participation in voluntary organizations increases the level of motivation by signalling to individuals that others share their problems and interests. Associations provide opportunities to increase resource levels and skills; they are also potent platforms for informal and organizational processes of recruitment. Taken together, engagement in secondary organizations stimulates the appetite for political participation. Or, as Parry, Moyser, and Day note:

> Those who are well-integrated into group life are, on the whole, more participatory. And, as the theory would predict, still more involved are those who are most active within their group. Action generates action. (Parry, Moyser, and Day 1992: 119)

3. Of Rain and Rainmakers

The Parry, Moyser, and Day (1992) verdict is not always supported empirically. At the micro-level, the relationship between participation in groups and participation in politics is robust but 'modest' (van Deth 1996: 405). While earlier studies celebrated associations in the voluntary sector as 'the most important foundations' of democracy (Almond and Verba 1963: 320 ff., similar Kornhauser 1959: 65), more recent studies have raised some doubts: Zimmer holds that the political function of hobby and leisure organization had been exaggerated (Zimmer 1996: 67, 89). Moreover, and in contrast to Parry, Moyser, and Day's (1992) conception, heavy involvement in club life might even suppress the appetite for political engagement: 'Intense involvement in a very apolitical organization is at best irrelevant to political participation and may even divert people from political activity (Erickson and Nosanchuk 1990: 206)—a result that squares well with Hirschman's idea of 'shifting involvements' (1979). Besides, the very small, if not insignificant, difference between passive and active membership is 'one of the unresolved mysteries of voluntary activity literature' (Newton 1997: 6). This raises the question as to how the differences between non-members, passive members, and active members are often so much smaller than theory would predict.

Social capital is also a collective good. In societies with high levels of social capital, what Esser (2000: 237) called system capital (see also Chapter 1 in this volume), one can benefit from that collective good without ever contributing to its production. It is there, and can be consumed. In societies where general trust levels are high, an individual might be treated as trustworthy even if they are not so—they benefit from the reputation of the system as a whole. Vice versa, in a society well known for its absence of trust, the chances are high that individuals are treated as dishonest, notwithstanding their personal record. In such a case, micro-relations might look weak because individuals are attributed with the social capital scores of the system as a whole. Putnam, Pharr, and Dalton (2000: 26) offer an alternative explanation, which they term the 'rainmaker function' of voluntary associations: associations produce a blessing rain which falls on both active and passive individuals—'the rain falls on the just and unjust alike' (Newton and Norris 2000: 72).

> Metaphorically speaking, no citizen (no matter how high his or her *own* social trust or civic engagement) can escape the rain produced by poor governmental performance, which is perhaps produced in part by the social disaffection or civic disengagement of his or her neighbours. (Putnam, Pharr, and Dalton 2000: 26)

On the other hand, high social trust (at the aggregate level) is associated with dense and vibrant civil society networks, which in turn lead to high level of political participation and effective and trustworthy government institutions. If this is the case, then 'the relationship will be nonexistent at the individual level yet important at the aggregate level' (Newton and Norris 2000: 62). This is what one would expect. As Norris maintains, 'Social capital is a relational phenomenon that can be the property of groups, local communities, and nations, but not of individuals. *We* can be rich or poor in social capital, but *I* cannot' (Norris 2002*b*: 139). A number of empirical analyses have supported such considerations. Dekker and van den Broek (1996: 126 ff.) show that social capital relates positively to levels of social competence, skills, and feelings of efficacy—important prerequisites for civic engagement of any kind. Moreover, based upon nineteen OECD countries, Gabriel et al. could find a significant relationship between social participation and civic engagement even if levels of socio-economic development are controlled for. They conclude that levels of associative membership relate positively to the spread of political participation (2002: 238–9).

Social Capital Worldwide

Essentially, social capital consists of a structural component, the network component, and a cultural dimension or component, social trust and norms of reciprocity. Both the cultural and the structural component can be traits or assets of individuals and of systems (nations) as a whole (compare e.g. Gabriel et al. 2002: 29; Norris 2002*b*: 138). Both are theoretically linked to political participation, government performance and democratic citizenship. While several chapters in this volume examine social capital at the individual level, the focus of this chapter is on trust and network participation as a collective good, i.e. an aggregate level phenomena which exists, (also) independent of the social capital traits of individuals. The databases of the subsequent analyses are the seventy nations which joined the fourth wave of the *World Values Survey* (WVS) project. Aggregate indicators of social capital are composed by simply assigning mean values of trust and associative participation to each nation. The countries are subdivided into six larger regional-cultural zones: Western and Eastern Europe, each with 19 countries; the two North American countries; Latin America with 6 participants; 8 African nations; and 16 participants from Asia. The first steps of the analyses examine stocks of

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social capital and how the cultural and structural dimension of social capital relate—at the aggregate level—to each other in seventy countries, located in six different regions of the world. Moreover, each analysis is conducted separately for democratic and non-democratic countries simultaneously.[1]

Measuring Social Capital

The 2000 World Values Survey asked whether respondents belong to an association and whether they were currently doing voluntary work.[2] A first indicator simply measures the percentage of a nation's population who are somehow involved in (belong to) the realm of the voluntary sector—no distinction is made between involvement per se and involvement as a volunteer. That distinction is made in a second step. If the rainmaker argument of Putnam, Pharr, and Dalton (2000) is correct, high stocks or reservoirs of associative involvement should relate positively to (i) levels of social trust and (ii) levels of political participation and democratic citizenship. By distinguishing 'belonging' from 'volunteer involvement' the chapter examines whether Putnam's emphasis on face-to-face interaction is plausible, or whether (passive) involvement signals the same propensities for trust, social belonging, and participation as claimed by others (e.g. Wollebæk and Selle 2003: 69). Moreover, the depth or breadth of engagement will be taken into account by considering the number of different organizations to which one belongs, or for which one does voluntary work.

These indicators differentiate between the depth or quality of involvement, but do not distinguish between different types of organizations. Within the social capital debate there is an ongoing discussion about which organizations contribute to a healthier and richer civil society, and which types might even undermine the prospects of democratic governance (see also Warren in this volume). Based on the broad categories offered in the World Values Survey, such a distinction is hard to make. As an example, no one would claim that religious organizations per se undermine social peace and lead to fundamentalist and antagonist visions of social togetherness; on the contrary, most authors agree that religious groups nourish feelings of solidarity, empathy, and altruism. However, everyone would agree that some religious groups can be very harmful (see e.g. Roßteutscher 2006 for a detailed discussion of religion's role in contemporary civil society and democracy). Even amongst the broad and apparently innocuous category of leisure or sports organizations, one might think of single associations which, by extensive bonding, for example do fail to contribute to the common good. Such finer distinctions within broad categories cannot be made on the bases of representative survey data. However, this chapter examines whether some types of organizations are more productive in producing trust and political participation than others.[3] This chapter, therefore, seeks an alternative solution and focuses on certain ideal types. These are types that hold a prominent position in the ongoing social capital debate:

- sports and recreation organizations: this category is the closest representation of Putnam's ideal type of a social capital generating voluntary association. Good government is a 'by-product', says Putnam, 'of singing groups and soccer clubs' (1993: 176).
- Professional interest organizations: from an inspection of the debate on factions and pluralism, this type of organization has been viewed more often with suspicion than with enthusiasm: interest organizations have been seen as seeking to capture the state for the sake of the narrow interest of their clientele (Roßteutscher 2005: 3–4; Maloney in this volume).
- Religious organizations: the current debate about the democratic value or danger of religious groups (i.e. Norris and Inglehart 2004; Roßteutscher 2006), justifies their separate treatment.

Equipped with these different measures of the structural component of social capital, it should be possible to establish whether and how different types of belonging, or different types of organizations, contribute to generating a politically active citizenry. Measuring the cultural component of social capital is fairly straightforward, given the data source. The World Values Survey contains the traditional question on social trust: 'Generally speaking would you say that most people can be trusted or that you can't be too careful in dealing with people?' All respondents who chose the optimistic answer ('Most people can be trusted') were treated as trusting. The percentage of trusting individuals per nation is the aggregate indicator for the cultural component of social capital.

Social Capital Worldwide: First Empirical Evidence

The cacophonous impression of Figure 8.1 narrates a rather simple story: some countries are high on social trust and possess a well-developed associative sector: they are rich in social capital. Others are social capital poor: they show

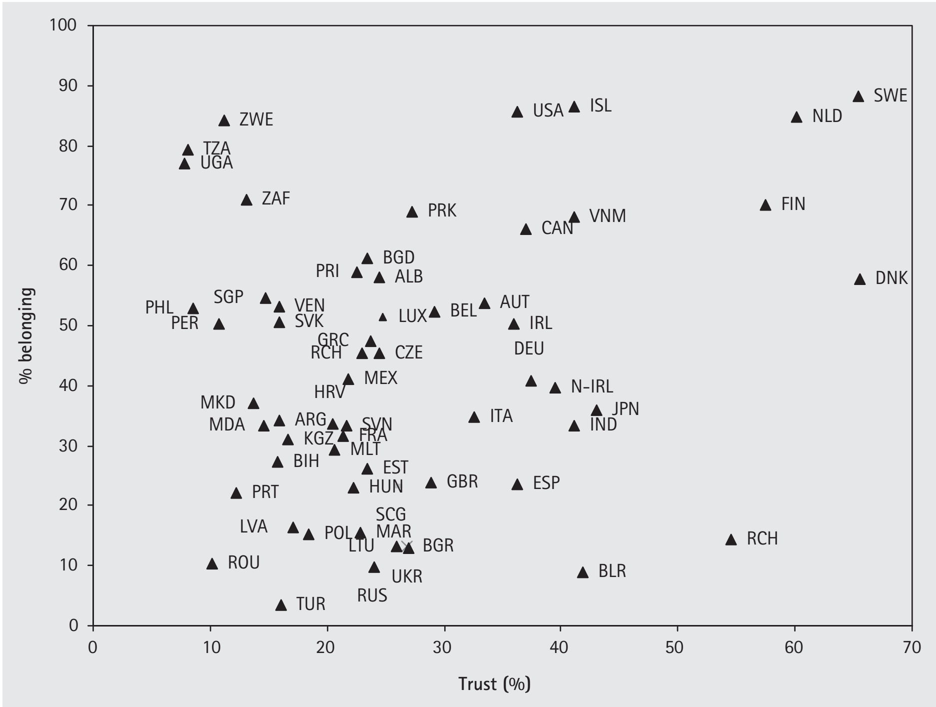

Fig. 8.1. Trust and associative belonging: stocks of social capital in seventy countries

low trust levels and an underdeveloped art of association. However, quite a number of nations are neither rich nor poor. They possess a lot of one component and rather little of the other: these are trusting but unengaged, or engaged but untrusting societies. There is, at least at the aggregate level, no clear relation between the structural and cultural components of social capital.

The distribution of social capital worldwide shows, moreover, some surprising results. Although, predictably trust is high in Denmark, Finland, Sweden, and the Netherlands (compare e.g. Norris 2002*b*: 149; Gabriel et al. 2002: 58), it is, more surprisingly almost as high in China, Indonesia, Iran, and Saudi Arabia (see Table 8.1). These are all highly trusting societies, with clear majorities of the populations believing that one can trust others. Looking at the world regions (see mean values in Table 8.2), trust is high in Western Europe, in North America, and Asia. Low levels of trust are a reality in the post-communist countries of Eastern Europe and in Latin America and Africa, in particular. The enormous differences found between Scandinavian countries, on the one hand, and the post-communist nations of Eastern

Table 8.1. Stocks of social capital worldwide

	Trust (%)	% belonging	Mean no. belonging	% volunteering	Mean no. volunteering
West Europe					
Austria	33.4	53.7	0.93	22.1	0.30
Belgium	29.2	52.4	0.95	24.6	0.38
Denmark	66.5	57.8	0.92	27.2	0.34
Finland	57.4	70.0	1.20	30.3	0.41
France	21.3	31.6	0.44	18.0	0.22
Germany	37.5	40.8	0.57	14.4	0.17
Great Britain	28.9	23.8	0.37	38.3	0.66
Greece	23.7	47.4	0.78	29.8	0.51
Iceland	41.1	86.4	1.73	27.2	0.37
Ireland	36.0	50.3	0.86	26.2	0.41
Italy	32.6	34.9	0.54	20.5	0.29
Luxembourg	24.8	51.4	0.91	25.4	0.38
Malta	20.7	29.3	0.39	22.8	0.34
Netherlands	60.1	84.8	1.88	37.1	0.56
Northern Ireland	39.5	39.6	0.66	15.6	0.23
Portugal	12.3	22.1	0.29	11.5	0.14
Spain	36.3	23.5	0.33	11.7	0.15
Sweden	66.3	88.3	1.86	45.1	0.67
Turkey	16.0	3.4	0.05	2.5	0.03
East Europe					
Albania	24.4	58.0	1.08	46.6	0.74
Bosnia and Herzegovina	15.8	27.2	0.35	16.9	0.20
Bulgaria	26.8	13.1	0.19	10.6	0.14
Belarus	41.9	8.8	0.10	11.1	0.14
Croatia	20.5	33.6	0.47	17.8	0.24
Czech Republic	24.5	45.3	0.69	23.7	0.32
Estonia	23.5	26.1	0.37	11.4	0.16
Hungary	22.3	22.9	0.30	12.0	0.17
Latvia	17.1	16.3	0.20	12.6	0.14
Lithuania	25.9	13.1	0.17	9.0	0.10
Macedonia	13.7	37.2	0.69	26.0	0.40
Rep. of Moldova	14.6	33.3	0.56	27.4	0.46
Poland	18.4	15.1	0.22	9.1	0.12
Romania	10.1	10.4	0.15	7.1	0.09
Russian Fed.	24.0	9.7	0.11	3.4	0.04
Serbia and Montenegro	25.8	23.4	0.32	10.7	0.13
Slovakia	15.9	50.6	0.71	39.7	0.52
Slovenia	21.7	33.3	0.54	18.8	0.30
Ukraine	26.9	13.0	0.17	5.9	0.06
North America					
Canada	37.0	66.1	1.37	41.8	0.73
USA	36.3	85.5	2.33	60.8	1.33

(*cont.*)

Table 8.1. (*Continued*)

	Trust (%)	(%) belonging	Mean no. belonging	(%) volunteering	Mean no. volunteering
Latin America					
Argentina	15.9	34.3	0.45	17.0	0.21
Chile	23.0	45.3	0.70	37.2	0.52
Mexico	21.8	41.0	0.69	33.6	0.51
Peru	10.7	50.2	0.76	37.8	0.51
Puerto Rico	22.6	58.9	1.03	42.4	0.64
Venezuela	15.9	53.3	1.01	n.a.	n.a.
Africa					
Algeria	11.2	n.a.	n.a.	n.a.	n.a.
Egypt	37.9	n.a.	n.a.	n.a.	n.a.
Morocco	22.8	15.6	0.21	n.a.	n.a.
Nigeria	25.6	n.a.	n.a.	n.a.	n.a.
South Africa	13.1	71.1	1.26	47.4	0.74
Tanzania	8.1	79.2	2.25	75.1	2.22
Uganda	7.8	76.9	1.66	70.7	1.25
Zimbabwe	11.2	84.3	1.23	59.0	0.78
Asia					
Bangladesh	23.5	61.1	1.84	n.a.	n.a.
China	54.5	14.5	0.20	71.4	1.53
India	41.1	33.3	0.79	26.4	0.58
Indonesia	51.6	n.a.	n.a.	n.a.	n.a.
Japan	43.1	36.0	0.59	13.3	0.18
Rep. of Korea	27.3	69.1	1.22	n.a.	n.a.
Kyrgyzstan	16.7	30.9	0.50	11.4	0.15
Pakistan	30.8	n.a.	n.a.	n.a.	n.a.
Philippines	8.6	52.8	0.92	51.8	0.91
Singapore	14.7	54.5	0.72	31.5	0.48
Vietnam	41.1	68.2	1.45	65.1	1.31
Iran	65.3	n.a.	n.a.	n.a.	n.a.
Iraq	47.6	n.a.	n.a.	n.a.	n.a.
Israel	23.5	n.a.	n.a.	n.a.	n.a.
Jordan	27.7	n.a.	n.a.	n.a.	n.a.
Saudi Arabia	53.0	n.a.	n.a.	n.a.	n.a.

Note: n.a. means question not included/not asked.

Europe, on the other, square well with the findings of earlier research (e.g. Gabriel et al. 2002). As Norris formulated, on the basis of her results using the former wave of the World Values Survey, 'whatever the Nordic "X" factor is, the ex-Soviet societies lack it' (Norris 2002*b*: 152). However, with the exception of Eastern Europe and Latin America where trust levels are uniformly low, there is a wide variation within single regions. In Western Europe (even

Table 8.2. Stocks of social capital in different world regions (mean values)[a]

	Trust (%)	% belonging	Mean no. belonging	% volunteering	Mean no. volunteering
West Europe[b]	37.1	48.2	0.84	24.4	0.35
East Europe	21.1	25.2	0.38	16.5	0.23
North America	37.3	76.2	1.86	51.3	1.02
Latin America	18.1	46.6	0.76	33.1	0.47
Africa	17.9	65.0	1.32	64.8	1.27
Asia[c]	35.9	45.3	0.92	38.2	0.72
Democracies	29.4	42.9	0.75	24.4	0.24
Autocracies	25.8	40.3	0.77	35.0	0.63

[a] Mean values calculated by weighing countries (N = 1000).
[b] Excluding Turkey.
[c] Excluding Israel.

excluding Turkey) there is a huge gap between the Swedish and Danish figures of 66 per cent trusting individuals, on the one hand, and the barely 20 per cent in France and Greece. Portugal, with only 12 per cent trusting individuals, is at the bottom of an inner-Western European ranking. Trust levels in Egypt are as high as in the two North American countries and more than four times as high as in Tanzania or Uganda where only 8 per cent of the inhabitants express trust in others.

Looking at patterns of associative belonging (see again Figure 8.1, Table 8.1, and Table 8.2), somewhat different conclusions emerge. The champions of social engagement (both in terms of the percentage of the population who are members of voluntary associations and the mean number of associations joined) are the two North American countries, where two-thirds of the population belong to an association and where individual memberships add up to an average of 1.9 per person. The West European figures are much lower: roughly 50 per cent belong to some association, while average involvement figures remain at a rather low 0.8 per person. However, the Netherlands, Iceland, and Sweden show degrees of associative belonging that match those of the North American countries (see Table 8.1). In general, the art of association is clearly more developed in the African region, where the low trust countries of South Africa, Tanzania, Uganda, and Zimbabwe show levels of involvement far above West European averages, reaching the heights of voluntary activity in the USA and Canada. Even Asia shows engagement levels that are very similar to West European patterns. Although trust is a scarce resource in Bangladesh, it possesses a very healthy voluntary sector: 60 per cent of the

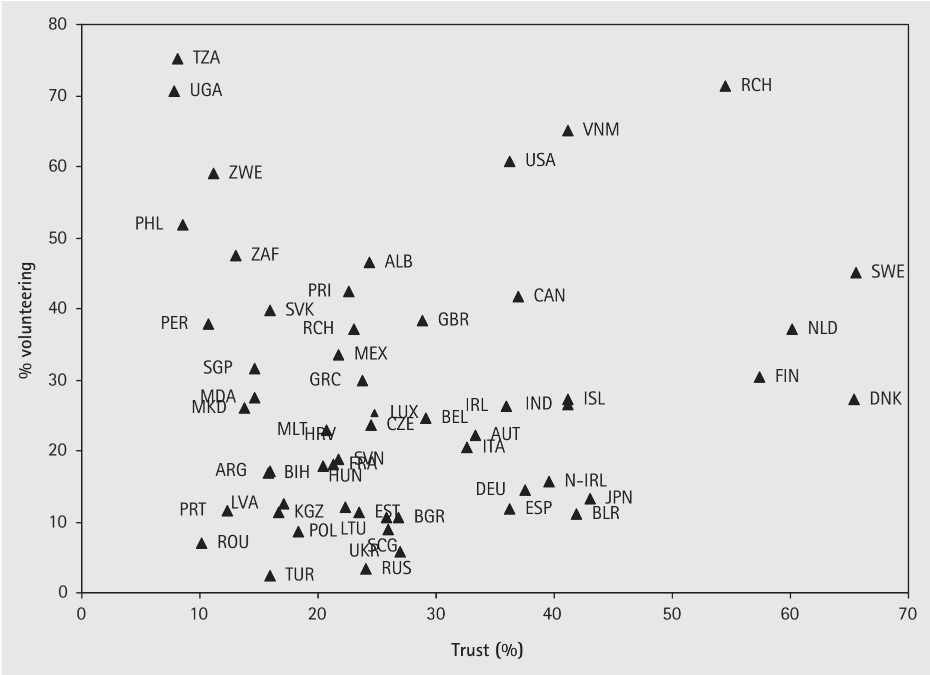

Fig. 8.2. Trust and volunteering: stocks of social capital in seventy countries

population are members, while the average Bangladesh inhabitant possesses 1.8 memberships—thus matching involvement figures of the highly engaged Netherlands and Scandinavian countries. Vietnam and the Republic of Korea show similarly high figures.

Many of these figures might signal no more than passive involvement: for example, that people belong to an association, sign a cheque once in a while to pay the membership dues, and do no more. The question arises, however, as to whether a different picture emerges from a focus on active involvement, on whether individuals also do voluntary work in their association. Figure 8.2 plots trust levels with the percentage of the population who reported that they also engage in voluntary work. With some variations, these findings mirror the findings on associative belonging. Volunteering is most common in the African region where, on average, 65 per cent are doing unpaid voluntary work for 1.3 associations (for mean figures and detailed country reports, see again Tables 8.1 and 8.2). The North American countries score second best: in the USA, 61 per cent are engaged on a voluntary basis in 1.3 associations. None of the West European Nations can match these figures, not even the Scandinavians. Although most West European countries possess high membership numbers, voluntary work is much less common. It is, indeed, hardly more common than in the East European post-communist nations, where patterns of both belonging and of volunteering are amongst the lowest worldwide.

This first global view of the distribution of social capital not only indicates huge differences between regions, but also huge differences within regions. Besides, for reservoirs of social capital, a country's location in Africa, Asia, or Europe might be less relevant than whether or not its government is democratic. Table 8.2 makes this distinction, although differences between democracies and autocracies are much slimmer than might be expected. There is a small advantage concerning trust in favour of the democratic countries (29 per cent trusting individuals in democracies compared to 26 per cent in autocracies), but there is almost no difference with regard to associative belonging, and there is clearly more volunteering in autocracies than in democracies! These average figures must, of course, be viewed with caution. The range of democracies encompasses all the countries of Western Europe, most of those of East Europe and Latin America, and some of the African and Asian nations—that is, countries with highly diverging levels of economic and social development. Yet the findings are not entirely meaningless. It is a first, and admittedly superficial, signal that the relationship between social capital and democracy is less close than theory predicts. There are, on the one hand, democracies with very low levels of social capital, whilst, on the other hand, some autocracies possess a healthy level. An examination of the relationship between the two components of social capital might clarify a part of this puzzle. Table 8.3 presents correlations between the cultural component of social capital (i.e. social trust) and the various indicators of the structural component used throughout this chapter. Correlation coefficients are presented for relations at both the individual and aggregate level for all world regions, and for both democracies and autocracies.

Table 8.3 reveals one major finding: social capital is a Western concept, with much less empirical resonance in the rest of the world. Western Europe and North America show positive relations between social trust and all aspects of associative belonging—both at the individual and the aggregate level of analysis.[4] As the rainmaker argument would suggest, aggregate relations are much stronger than relations at the individual level. However, it is clear at both levels of analysis that trust relates positively to belonging and volunteering, and it also relates positively to engagement in sports associations, interest groups, and religious organizations. Trusting people join groups (or,

Table 8.3. Social capital: relating structure to culture

	Trust × belonging	Trust × mean no. belonging	Trust × volunteering	Trust × mean no. volunteering	Trust × sport association	Trust × professional association	Trust × religious groups
West Europe							
Ind.	.19***	.22***	.12***	.12***	.13***	.11***	.13***
Country	.71***	.69***	.53***	.39***	.69***	.53***	.61***
East Europe							
Ind.	.05***	.07***	.04***	.05***	.02**	.03***	.03***
Country	−.27***	−.25***	−.23***	−.23***	-22***	−.26***	−.37***
North America							
Ind.	.11***	.13***	.10***	.12***	.05*	.12***	.08***
Country[a]	–	–	–	–	–	–	–
Latin America							
Ind.	.06***	.07***	.07***	.10***	.02	.05***	.04**
Country	.06***	.14***	.30***	.41***	−.11***	.06***	.34***
Africa							
Ind.	−.09***	.10***	−.03	.07*	−.03*	.00	−.05**
Country	−.96***	−.96***	−.98***	−.76***	−.80***	−.66***	−.71***
Asia							
Ind.	−.03**	.06***	.06***	.07***	−.04***	−.00	−.06***
Country	−.44***	−.25***	.32***	.44***	−.29***	−.06***	−.51***
West[b]							
Ind.	.18***	.20***	.11***	.12***	.12***	.11***	.12***
Country	.65***	.56***	.37***	.21***	.67***	.39***	.56***
Democracies							
Ind.	.15***	.17***	.09***	.09***	.11***	.10***	.09***
Country	.52***	.53***	.19***	.15***	.65***	.50***	.38***
Autocracies							
Ind.	−.03***	−.04***	.04***	.04***	−.03***	−.01	−.05***
Country	−.36***	−.30***	.09***	.10***	−.34***	−.24***	−.42***

Notes:
Levels of significance: *** > 0.001, ** > 0.01, * > 0.05.
Calculated by weighing cases (N = 1000 per country). Cell entries are correlation coefficients: Phi in the case of individual data analyses, Pearson's R in the case of aggregate data analyses.
[a] Only two cases for aggregate analyses.
[b] West includes: Western Europe (without Turkey), Northern America, Israel.

joining breeds trust). Countries with high levels of trust possess a healthy level of associationalism—and vice versa. This is clearly not the case in Eastern Europe, where, at the individual level, the relationship is close to nil, while the aggregate level reveals a clear and consistent negative association: the higher the level of social trust, the less people join. By contrast, in those East European societies which have a high level of associational life the trust levels are low! It might be tempting to explain such a pattern with the particular voluntary sector which developed after the collapse of communism, and which led to the emergence of many rent-seeking associations which were busy (as some observers say) to corrupt and undermine the new democracies for their own sake (see e.g. Korkut 2005). However, considering that similar, even stronger relations also emerge in the African and Asian context, such an explanation cannot hold. In large parts of the world, and this is particularly evident in the African case, trust and associationalism are antagonistic: one excludes the other. Negative correlations at the individual level, albeit very small ones, signal—at least for African countries—that this is not only an aggregate phenomenon but holds true at the individual level as well: the non-trusting join, whilst the trusters abstain from voluntary involvement.

Considering this finding, this chapter will not use a summary measure of social capital to assess its impact on democratic citizenship. Rather, the structural and the cultural components (positively related to each other in one part of the world, but clearly negatively related in other regions) will be treated separately. Whether trust or associationalism—or both, or neither—is an asset for an engaged citizenry and the development of democratic citizenship is an empirical question to which this chapter will now turn

4. Social Capital and Democratic Citizenship

From a Western perspective, 'civic' engagement is naturally related to democratic behaviour. An active citizenry, with citizens who utter their concerns and are willing to participate in the political game, is an asset to any polity. In democratic contexts, we thus tend to view any political act (if not violent and against the rules of a game) as a positive contribution that will improve the quality and efficiency of government. However, the broad data basis of the World Values Survey discourages an over-optimistic view of political participation. In communist or authoritarian countries, with obligatory election campaigns without real choice (and where the winners are fixed from the beginning), 'non-voting' might in these cases be the more civic and democratic response. Is marching in state-organized demonstrations in favour of state goals really the same thing as an independent citizen protest against government policies? The survey data shows whether or not individuals participated politically. Yet it does not answer the question as to which of the two options is democratically beneficial. This is something which cannot be gleaned from the survey data. How can such an ambiguity be solved? In theory, social capital should contribute positively to an active and engaged citizenry because it enhances skill levels, counters lack of motivation, and improves recruitment patterns. In this chapter we shall assume such an optimistic interpretation. However, we shall also allow for the possibility that in non-democratic settings, social capital might contribute to development towards democracy by withdrawing citizen support from a non-democratic leadership, in other words by individuals not taking part in controlled elections, state-sponsored marches, or the state-run party system.

Moreover, we aim to go one step further and introduce three 'control' variables: (i) political interest, (ii) government support, and (iii) some basic democratic attitudes. In democratic systems, all aspects should be positively related to social capital. Trusting individuals who are engaged in voluntary associations should develop some interest in the political game, they should therefore participate more often, should emphasize democratic values and they should express more trust in government than distrusting individuals who do not joint the associative sector. Formulated as an aggregate phenomenon it means this: in trusting societies where the art of association is highly developed, democratic values should be strong; there should be high levels of political interest; participation rates and government support should be high. However, such a uniformly positive relationship must not surface in non-democratic systems. Here, social capital, if it exerts an independent democratic effect, might lead to low participation rates, and low levels of government support, but high interest in politics and a strong support of democratic ideals.

Measuring Democratic Citizenship

The World Values Survey contains a short battery of items about different forms of so-called unconventional or non-institutionalized forms of political participation.[5] Five forms of action are suggested: signing a petition, joining in boycotts, attending lawful demonstrations, joining unofficial strikes, occupying buildings or factories. From responses to these five items a scale of non-institutionalized political behaviour was constructed.[6] As part of the battery of questions on associative involvement, respondents were also asked

Table 8.4. Indicators of democratic citizenship (mean values)[a]

	Non-institutionalized political action (0–5)	Involvement in political groups (0–5)	Political interest (1–4)	Confidence in government (1–4)	Support of democracy (4–16)
West Europe[b]	1.04	0.24	2.30	–	13.15
East Europe	0.48	0.12	2.36	2.14	11.60
North America	1.31	0.44	2.55	2.32	12.74
Latin America	0.42	0.21	2.04	2.29	11.61
Africa (mean)	0.48	0.39	2.24	2.75	12.30
Asia (mean)[c]	0.31	0.34	2.51	2.71	11.08
Democracies	0.82	0.20	2.35	2.32	12.46
Autocracies	0.37	0.28	2.33	2.63	11.39

[a] Mean values for groups of countries calculated by weighing countries (N = 1000).
[b] Excluding Turkey.
[c] Excluding Israel.

whether they belong to political parties, local political action groups, human rights organizations, the peace movement, or associations concerned with conservation, the environment, ecology, or animal rights. Positive responses to these five types of political organizations are treated as a form of organized collective political behaviour.

Measuring political interest and government support is straightforward. The World Values Survey contains the question, 'How interested would you say you are in politics?'[7] and respondents were further asked to say how much confidence they have in their government.[8] Finally, the World Values Survey contains a battery of questions on the perceived quality of different political systems.[9] The types of systems suggested were:

- having a strong leader who does not have to bother with parliament and elections
- having experts, not the government, make decisions according to what they think is best for the country
- having the army rule
- having a democratic political system.

Individual responses to all four questions were added into one scale. Negative responses to the first three regimes types counted as support for a democratic political system. Table 8.4 presents the diffusion of democratic citizenship in the six world regions and amongst democracies and non-democratic states.

Political participation of the non-institutionalized kind is widespread in Western Europe and North America, but rather uncommon in the rest of the world. Differences are large and remain high and significant when democracies are compared to non-democratic countries. This is not the case when involvement in political groups (parties, local action groups, movement organizations, etc.) is considered. Participation in groups is most frequent in the two North American countries, however mean values for Africa and Asia come very close. With regard to group activism, East European nations clearly occupy the last rank and there is, moreover, no significant difference between democratic and autocratic countries in the spread of political participation in groups. Surprisingly, there is also no difference concerning political interest. In democracies and autocracies alike, inhabitants express an almost identical interest in the political game. One might expect that individuals who do not possess the right to choose their own political leaders would find watching politics a waste of time, compared to countries where individuals are responsible for the composition of governments. But the World Values Survey data does not support such an idea. The most intriguing—perhaps even discomforting—piece of evidence in Table 8.4 is the fact that trust in government is more widespread in non-democratic regimes than in democracies. Trust or confidence in government is particularly high in Africa (and within Africa, in Tanzania and Uganda); it is very high in China, Bangladesh, Vietnam, and Jordan; and it is substantially higher in Iran than in the USA (data not shown).[10] None of these countries qualifies as a democracy, and some, such as Communist China or the Islamic Republic of Iran, have highly oppressive regimes; yet it seems as if their leaders are largely trusted by the citizens.[11] Finally, there is a clear difference between inhabitants of democratic and non-democratic countries in the support of democracy. The idea of democracy being the best option to organize political community finds strongest support in Western Europe; it is most clearly discredited in the Asian context, with East Europe and Latin America scoring rather low as well.

Relating Social Capital to Civic Engagement

Social capital, says Stolle, is the 'key resource that seems to oil the wheels of…democratic politics' (2003: 19). Is she right? This final section will examine the relationship between social capital—trust and participation in voluntary associations—and the five aspects of democratic citizenship

Table 8.5. Social capital and the generation of democratic citizenship

	Trust × non-institutionalized political action	Trust × involvement in political groups	Trust × political interest	Trust × confidence in government	Trust × sport of democracy
West Europe					
Ind.	.16***	.15***	.17***	–	.12***
Country	.39***	.57***	.46***	–	.24***
East Europe					
Ind.	.04***	.01	.06***	.13***	.05***
Country	−.12***	−.02*	.13***	.58***	.29***
North America					
Ind.	.11***	.06**	.11***	.07**	.17***
Country[a]	–	–	–	–	–
Latin America					
Ind.	.09***	.04**	.08***	.06***	.02
Country	−.13***	−.08***	−.14***	.52***	−.03*
Africa					
Ind.	.00	−.02	−.01	.05***	−.05***
Country	.19***	−.76***	−.34***	−.43***	−.17***
Asia					
Ind.	.05***	−.04***	.05***	.07***	.00
Country	.31***	−.05***	.40***	.18***	−.05***
West[b]					
Ind.	.16***	.13***	.15***	.05***	.12***
Country	.40***	.53***	.30***	–	.24***
Democracies					
Ind.	.17***	.11***	.12***	.04***	.15***
Country	.62***	.51***	.29***	.00	.55***
Autocracies					
Ind.	.02	−.02*	.06***	.11***	−.06***
Country	−.38***	−.05***	.35***	.30***	−.28***

Notes:
Levels of significance: *** > 0.001, ** > 0.01, * > 0.05.
Calculated by weighing cases (N = 1000 per country). Cell entries are Pearson's *R* correlation coefficients.
[a] Only two cases for aggregate analyses.
[b] West includes: Western Europe (without Turkey), Northern America, Israel.

previously discussed. Table 8.5 presents correlation analyses between social trust and democratic citizenship, as phenomena at both an individual and aggregate level.

In the Western world, social trust relates clearly and positively to all aspects of democratic citizenship. People who trust others are more eager to engage in political action, are more often members of political groups, show higher levels of political interest, tend to trust their governments, and display a greater support of democracy than individuals lacking trust. This relationship holds at both levels of analysis: in countries with many trusters, participation rates and interest in politics are high, governments receive high levels of confidence, and democratic ideas have a high credit. Trust is indeed a key resource of democratic politics. But this does not, in fact, validate Stolle's view. Trust is equally a key resource of non-democratic politics. If one compares democracies with autocracies, trust relates very clearly to confidence in government in non-democratic regimes: trusters give their unelected autocratic leaders high credit, while the non-trusters do not. Moreover, trusting people in non-democratic countries express low esteem of democratic values. The non-trusters are the ones who honour democratic ideas. Trust also leads to abstention from civic engagement: the higher the level of trust, the lower the level of participation. In other words, in autocracies trust relates in a profoundly different manner to aspects of democratic citizenship than it does in democratic countries. In the one case, the democracy, the truster is politically engaged and democratically orientated. In the other case, the autocracy, the truster is politically apathetic and holds undemocratic beliefs. In both cases, however, democracies and non-democracies alike, the truster is interested in politics and exhibits high confidence in government. Social trust appears to be a regime-stabilizing element, no matter what kind of regime is in power. Is it, then, a key resource for governments of all sorts?

Looking at Table 8.6, participation in voluntary associations seems to exert a clearer and far more general push towards democratic citizenship than social trust.[12] In both Western countries and non-Western contexts, and in democracies and autocracies alike, individuals who participate in group life are more often engaged politically; they also express higher levels of political interest and support democratic ideas to a greater extent than individuals who abstain from voluntary activity. One exception confirms this general rule: Asia. It is here that group participation relates negatively to political participation, and lowers the support for democracy. In the Asian world, countries with high levels of voluntary activity experience less political participation of the non-institutionalized sort, and democratic values are less widespread than in Asian countries where the art of association is less well developed. Apart from the Asian case, however, belonging and volunteering in the associative world contributes to strengthening democratic citizenship. There is one piece of evidence that, unfortunately, disturbs the impression of the universally beneficial impact of the voluntary sector. Participation in group life increases confidence in government, no matter whether these

Table 8.6. The spread of associative belonging and volunteering and the generation of democratic citizenship

	No. of belonging × non-institutionalized political action	No. of belonging × involvement in political groups	No. of belonging × political interest	No. of belonging × confidence in government	No. of belonging × support of democracy	No. of volunteering × non-institutionalized political action	No. of volunteering × involvement in political groups	No. of volunteering × political interest	No. of volunteering × confidence in government	No. of volunteering × support of democracy
West Europe										
Ind.	.18***	.44***	.21***	–	.06***	.13***	.30***	.11***	–	.04***
Country	.47***	.85***	.62***	–	.23***	.64***	.62***	.24***	–	.29***
East Europe										
Ind.	.14***	.48***	.06***	.07***	.05***	.09***	.42***	.04***	.06***	.02
Country	.57***	.58***	.12***	.40***	.3***	.42***	.54***	.05***	.48***	.23***
North America										
Ind.	.16***	.40***	.19***	.01	.05*	.14***	.38***	.13***	−.01	.05*
Country[a]	–	–	–	–	–	–	–	–	–	–
Latin America										
Ind.	.12***	.50***	.13***	.09***	.02	.07***	.40***	.10***	.08***	−.02
Country	−.24***	.84***	.31***	.75***	.17***	.04***	.87***	.70***	.78***	−.03
Africa										
Ind.	.09***	.57***	.22***	.12***	.06***	.03	.55***	.14***	.12***	.09***
Country	.37***	.91***	.97***	.75***	.30***	.15***	.99***	.93***	.91***	.99***
Asia										
Ind.	.06***	.65***	.15***	.07***	−.04**	.02	.45***	.22***	.22***	−.16***
Country	−.43***	.87***	−.02	.38***	−.16***	−.58***	.48***	.62***	.92***	−.51***
West[b]										
Ind.	.18***	.44***	.21***	−.00	.04***	.14***	.32***	.13***	−.01	.02**
Country	.52***	.85***	.65***	–	.04***	.56***	.61***	.39***	–	−.05***
Democracies										
Ind.	.21***	.47***	.18***	.07***	.09***	.13***	.37***	.12***	.06***	.01*
Country	.58***	.86***	.43***	.26***	.30***	.38***	.68***	.22***	.46***	.01*
Autocracies										
Ind.	.07***	.63***	.13***	.14***	.06***	.04***	.51***	.16***	.25***	.05***
Country	.06***	.84***	.40***	.57***	.24***	.07***	.71***	.69***	.82***	.29***

Notes:
Levels of significance: *** > 0.001, ** > 0.01, * > 0.05.
Calculated by weighing cases (N = 1000 per country). Cell entries are Pearson's *R* correlation coefficients.
[a] Only two cases for aggregate analyses.
[b] West includes: Western Europe (without Turkey), Northern America, Israel.

Table 8.7. Sports and recreation associations and the generation of democratic citizenship

	Non-institutionalized political action	Involvement in political groups	Political interest	Confidence in government	Support of democracy
West Europe					
Ind.	.12***	.18***	.13***	–	.03***
Country	.46***	.86***	.74***	–	.18***
East Europe					
Ind.	.10***	.18***	.05***	−.01	.06***
Country	.84***	.20***	.32***	−.37***	.56***
North America					
Ind.	.06*	.10***	.04	.01	−.05*
Country[a]	–	–	–	–	–
Latin America					
Ind.	.05***	.22***	.03	.01	−.05*
Country	−.35***	.70***	−.40***	.65***	−.40***
Africa					
Ind.	.11***	.30***	.14***	.06***	.05***
Country	.64***	.91***	.98***	.81***	.37***
Asia					
Ind.	.06***	.34***	.08***	−.02	.01
Country	−.25***	.59***	−.12***	−.09***	.09***
West[b]					
Ind.	.12***	.17***	.13***	−.00	.02*
Country	.50***	.86***	.76***	–	.11***
Democracies					
Ind.	.15***	.20***	.11***	.00	.07***
Country	.69***	.82***	.54***	.07***	.47***
Autocracies					
Ind.	.06***	.32***	.07***	.05***	.05***
Country	.20***	.74***	.24***	.50***	.26***

Notes:
Levels of significance: *** > 0.001, ** > 0.01, * > 0.05.
Calculated by weighing cases (N = 1000 per country). Cell entries are Pearson's R correlation coefficients.
[a] Only two cases for aggregate analyses.
[b] West includes: Western Europe (without Turkey), Northern America, Israel.

governments are democratically elected, ruled by traditional monarchs, or governed by state-communist parties or Islamic leaders. Moreover, the correlation between participation in voluntary associations and confidence in government is significantly stronger within the realm of non-democratic regimes than in the democratic world. In other words, it seems that autocratic leaders profit even more from a vibrant voluntary sector than democratic elites.

Table 8.8. Interest groups and the generation of democratic citizenship

	Non-institutionalized political action	Involvement in political groups	Political interest	Confidence in government	Support of democracy
West Europe					
Ind.	.14***	.23***	.15***	–	.08***
Country	.52***	.81***	.63***	–	.54***
East Europe					
Ind.	.09***	.21***	.06***	.03*	.05***
Country	.40***	.56***	.04***	.40***	.30***
North America					
Ind.	.16***	.22***	.17***	.01	.16***
Country[a]	–	–	–	–	–
Latin America					
Ind.	.16***	.22***	.17***	.01	.16***
Country	−.21***	.81***	.34***	.61***	.34***
Africa					
Ind.	.10***	.38***	.15***	.06***	.07***
Country	.37***	.98***	.89***	.87***	.58***
Asia					
Ind.	.08***	.36***	.09***	.06***	.02
Country	−.26***	.93***	−.02***	.42***	−.11***
West[b]					
Ind.	.15***	.24***	.16***	−.01	.08***
Country	.55***	.80***	.65***	–	.23***
Democracies					
Ind.	.16***	.25***	.14***	.02	.09***
Country	.59***	.80***	.46***	.18***	.40***
Autocracies					
Ind.	.08***	.36***	.10***	.06***	.05***
Country	.12***	.91***	.41***	.54***	.22***

Notes:
Levels of significance: *** > 0.001, ** > 0.01, * > 0.05.
Calculated by weighing cases (N = 1000 per country). Cell entries are Pearson's R correlation coefficients.
[a] Only two cases for aggregate analyses.
[b] West includes: Western Europe (without Turkey), Northern America, Israel.

This raises the question as to whether some associational types are particularly efficient in fostering democratic values and government support. Alternatively this finding may be unrelated to certain specific types of associations. Tables 8.7 to 8.9 present correlations between aspects of democratic citizenship and three 'master' or ideal types of association: sports associations, interest groups, and religious organizations.

In the contexts of Western Europe, North America, and Africa, Putnam's favourite associations, the realm of apolitical sports and leisure clubs, relate

Table 8.9. Religious organizations and the generation of democratic citizenship

	Non-institutionalized political action	Involvement in political groups	Political interest	Confidence in government	Support of democracy
West Europe					
Ind.	.03**	.19***	.09***	–	.02**
Country	.22***	.50***	.36***	–	.18***
East Europe					
Ind.	.01	.19***	.00	.10***	−.00
Country	.24***	.46***	−.04***	.51***	.23***
North America					
Ind.	.01	.16***	.13***	.03	.03
Country[a]	–	–	–	–	–
Latin America					
Ind.	.01	.16***	.06***	.11***	−.00
Country	.11***	.32***	.64***	.43***	.47***
Africa					
Ind.	.02	.17***	.16***	.09***	.04*
Country	−.05***	.50***	.62***	.31***	.05***
Asia					
Ind.	.06***	.27***	.04***	−.04**	.10***
Country	−.10***	.44***	−.48***	−.09***	.34***
West[b]					
Ind.	.04***	.20***	.11***	.03	.02*
Country	.30***	.57***	.45***	–	.07***
Democracies					
Ind.	.06***	.21***	.09***	.11***	.03***
Country	.28***	.60***	.22***	.36***	.15***
Autocracies					
Ind.	.01	.26***	.04***	.09***	.12***
Country	.01	.52***	.14***	.31***	.42***

Notes:
Levels of significance: *** > 0.001, ** > 0.01, * > 0.05.
Calculated by weighing cases (N = 1000 per country). Cell entries are Pearson's *R* correlation coefficients.
[a] Only two cases for aggregate analyses.
[b] West includes: Western Europe (without Turkey), Northern America, Israel.

positively to all aspects of democratic citizenship (modestly at the individual level, strongly at the aggregate level). However, this is not the case elsewhere. In Eastern Europe, levels of activity in sports associations suppress government support, while in Latin America engagement in leisure activities not only hampers the appetite for political participation, it also decreases interest in the political game and support for democracy in general. Negative relations also materialize in the Asian world: levels of sports activities decrease the amount of participation, the level of political interest and support for the government.

Yet, these negative relations are purely aggregate phenomena. At the individual level, relations turn out to be close to nil, or modestly positive. In other words, whether or not sports activists are good citizens the cumulative effect of sports association in Eastern Europe, Latin America, or Asia tends to undermine the diffusion of democratic citizenship. To use the rainmaker metaphor, the rain is not a blessing.

Compared to sports association, the realm of professional interest groups, so often viewed as a burden to democracy, fares very well. There is only one piece of negative evidence: in Asia, (exclusively), activity in professional organizations goes hand in hand with lower support of democratic ideals and a decrease in the level of (non-institutionalized) political participation. Not much else can be said about religious organizations. Around the world, they contribute positively to the spread of democratic ideals, heighten the interest in politics, and increase levels of political participation. Again, Asia provides a deviant case: there is less political interest, less participation, and less government support. In general, however, these three very different types of organizations exhibit very similar effects, effects that tend to foster the development of democratic citizenship. These effects appear to be strongest and most generally applicable in the case of interest organizations, while the democratic contribution of sports and leisure activity is, in relative terms, more modest. There is also no difference in whether these associations are located in democratic or non-democratic regimes. As with the associative world in general, governments of all kinds benefit from voluntary activity.

5. Conclusions

This chapter has painted a first, crude, picture of the distribution of social capital and its impact on civic engagement and democratic citizenship in seventy countries, six broad world regions, and in both democracies and autocracies. The findings should be seen as what they are: first indicative pieces of evidence about worldwide reservoirs of social capital and their democratic effects. That said, some of the findings, indicative as they may be, are nevertheless worth noting. Social capital is an exclusively Western concept. The notion that social capital is the result of the interaction of social trust and network participation, two intimately related concepts where one aspect fosters the other, works only in the world of Western countries. Elsewhere, both elements, the cultural and the structural, are either fully unrelated or interact negatively. The conclusion is clear: the concept of social capital is not applicable outside its origins: the realm of established Western democracies.

However, the individual components of trust and network participation each leave their imprint on almost all aspects of democratic citizenship worldwide. Correlations can be impressive, particularly, as the rainmaker argument suggests, at the aggregate level of analysis. The societal distribution of trust and voluntary engagement relates strongly to the spread of political participation, political interest, confidence in government, and the diffusion of democratic values. Yet, from a global perspective, the effects are less a blessing. Trust is a useful resource for governments of *all* kinds: trusting individuals trust their leaders, whether or not they are democratically elected. Social trust is, to paraphrase Stolle's argument, a key social resource that seems to oil the wheels of *government*. More discomforting still, whilst social trust fosters the support of democratic ideals in democracies, in autocracies it suppresses democratic beliefs. Trusters in non-democratic regimes tend to be less supportive of democratic rule than non-trusters. Social trust is a system-stabilizing force, provoking trust in government and support of the dominant regime values. Whilst these are democratic ideals in the case of democracies, they are non-democratic ideals in the case of autocracies. In short, there is nothing intrinsically democratic about trust!

Conclusions concerning the democratic impact of engagement in voluntary associations are somewhat brighter. Associative belonging and volunteering relate positively to the support of democracy worldwide, in democracies and non-democracies alike. There is thus, in stark contrast to social trust, something intrinsically democratic in the voluntary sector. That said, participation in associations provides, just like trust, confidence in government. The democratic quality of civil society is thus of a limited nature. It contributes to the support of democratic ideas, fosters patterns of civic engagement, and increases the desire to watch the political game, but stabilizes democratic leaders as much as the elites of non-democratic regimes. Perhaps we ask too much from voluntary activity which, for most people, most of the time, is clearly apolitical sports. In searching for a cure for defect democracies, or even for a motor of democratization, looking at social trust is definitely the wrong solution. Cherishing the voluntary sector is slightly more promising, yet clearly this would not be an efficient way of initiating regime change.

In 2002, using the previous wave of the World Values Survey with forty-seven participating countries, Norris came to the conclusion that it is social trust ‘which is driving this process’ (of democratic development) ‘*not* the associational network dimension’ (Norris 2002*a*: 48). This chapter, applying slightly different techniques and indicators based on the seventy countries which participated in the 2000 World Values Survey, cannot confirm her conclusion. If at all, civil society is closer and more unequivocally related to aspects of democratic citizenship than social trust. This is good news, however. According to Inglehart (1999) and Uslaner (2003), trust is a cultural resource, inherited throughout the centuries of a country’s history. In other words it is hard to describe as an on-the-spot cure. To furnish a developing democracy with a vibrant associative sector seems somewhat easier, and, at the same time, more promising. Moreover, previous research has shown that social capital is ‘consistently and positively associated with many indicators of socioeconomic and human development’ (Norris 2002*b*: 155; see also Norris 2002*a*; Gabriel et al. 2002). In this chapter we have traced the direct effects of social capital on democratic citizenship and civic engagement. Perhaps, however, those are the wrong places to look. By aiding economic development, by helping to build richer and safer societies, social capital might exert more indirect but far more powerful effects on the development of just and stable democracies.

Notes

1. The coding of democratic countries adopts the Freedom House classification of the year 2000. ‘Free’ countries are coded as democracies, ‘Partly Free’ and ‘Nonfree’ countries are classified as autocracies (see <www.freedomhouse.org/uploads/FIWrank7305.xls>). In the concrete case, of the seventy countries which participated in the fourth wave of the World Values Survey, the following forty-one countries were coded as democracies (in alphabetical order): Argentina, Austria, Belgium, Bulgaria, Canada, Chile, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Japan, Republic of Korea, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, Northern Ireland, Philippines, Poland, Portugal, Puerto Rico, Romania, Serbia and Montenegro, Slovakia, South Africa, Spain, Sweden, United States.
2. The exact wording of the question is: ‘Please look carefully at the following list of voluntary organisations and activities and say . . . which, if any, do you belong to?’ The respondents were further asked: ‘And for which, if any, are

you currently doing unpaid voluntary work?' The list included fifteen different types of organizations: social welfare services for the elderly; religious organizations; education, arts, music or cultural activities; (labour unions); (political parties); (local political actions); (human rights); (conservation, the environment, ecology, animal rights); professional associations; youth work; sports or recreation; women's groups; (the peace movement); organizations concerned with health; other groups. The organizational types set in brackets are excluded from measurements of voluntary activity because of their overt political content.

3. In doing so, it would be useful to reduce the list of altogether fifteen associative concerns to a smaller array of meaningful types. Data reduction of this kind, however, proved to be very complicated because the structure tends to differ from country to country and only pragmatic solutions can be sought (see e.g. Gabriel et al. 2002: 44–6; Roßteutscher and van Deth 2002). Considering the seventy countries from very different socio-political and economic backgrounds which participated in the fourth wave of the World Values Survey, to find a statistically sound solution for reducing the available information to a few types of associative activity will be close to impossible.
4. No aggregate analyses were conducted for North America because there are only two cases (Canada and the USA).
5. The question reads: 'Now I'd like you to look at this card. I'm going to read out some different forms of political action that people can take, and I'd like you to tell me, for each one, whether you have actually done any of these things, whether you might do it or would never, under any circumstances, do it.'
6. Only the answer that one has actually already participated will be taken into account.
7. Four response categories are offered: very interested, somewhat interested, not very interested, not at all interested.
8. The question reads: 'I am going to name a number of organisations. For each one, could you tell me how much confidence you have in them: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all?'
9. The question reads: 'I'm going to describe various types of political systems and ask what you think about each as a way of governing this country. For each one, would you say it is a very good, fairly good, fairly bad or very bad way of governing this country?'
10. No mean values for West Europe are indicated because the trust question was only asked in Spain and Turkey.
11. There remains, of course, some doubt about the validity of survey techniques in non-free regimes.
12. Identical analyses were conducted using the alternative indicator for associative involvement (whether one 'belongs' or not). As the results obtained do not add anything new or different, the presentation is restricted to one of the two.

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CHAPTER 9

TRUST AND POLITICS

KEN NEWTON

This chapter deals specifically with political trust and touches on the topic of social trust only insofar as it is relevant to the political. Other chapters in this book deal with social trust. The importance of this division of labour lies, of course, in the time-honoured attempts of social scientists to understand the social foundations of politics, or more precisely, the interaction between the social and the political in the shaping of political life.

The chapter is divided into seven main sections. The first is concerned with clarifying some verbal and conceptual matters because without this we can make little progress towards answering some of the most important and interesting questions about political trust. The second section outlines evidence of the decline of political trust in Western democracies. The third deals with the question of whether this decline is a matter of much concern. Some writers have argued that it does not even make sense to claim that we trust or distrust politicians, while others claim that political distrust is a good thing that reveals a degree of realistic cynicism on the part of citizens. Having concluded that political trust does matter, sections 4, 5, and 6 turn to what are probably the most important and interesting substantive questions about political trust: what are the origins of political trust, and what explains its decline in Western democracies? The final section looks briefly at the problem of trying to sort out the cause and effect relations between social and political trust, and the closely related issue of the contribution of top-down and bottom-up theories of them.[1]

1. Types and Levels of Political Trust

Some of the most obvious questions to ask about political trust (What are its origins? Why is it declining? Does this matter?) are not nearly as straightforward and innocent as they seem at first sight, because the concept is a vague and slippery one, and theories and assumptions about it are tangled and complex. The answers depend on what you mean by trust, how you understand its origins, and what sort of trust you have in mind. Therefore, we must start with a simple definition and some important distinctions between types and levels of trust.

For present purposes it is enough to define political trust as the belief that those in authority and with power will not deliberately or willingly do us harm, if they can avoid it, and will look after our interests, if this is possible. To trust a politician is to believe that they will look after our interests and values when it comes to making political decisions and taking political action. This definition has the advantage of being close to a commonsense understanding of the term, which is essential if survey questions are to be understood by respondents. It also has the merits of being close to Hardin's (1998: 12–15) definition of social trust as 'encapsulated interest', to Gambetta's (1988: 217) suggestion that trust is built on the belief that others will act beneficially, not maliciously, towards us, and to Warren's (1999: 311) belief that trust involves shared interests and lack of malice.

There is a crucial difference between social and political trust. The first refers to attitudes towards other citizens (horizontal trust), and the second to relations between citizens and political leaders (a vertical form). This distinction is not made for the academic joys of creating ever more refined typologies and splitting conceptual hairs. As Putnam (2000: 137) writes 'Social trust . . . in other people is logically quite different from trust in institutions and political authorities. One could easily trust one's neighbour and distrust city hall, or vice versa.' If we are to explore the social foundations of politics, we must maintain a clear conceptual distinction between the social and the political, and not assume that there is a single form of trust that applies to all sorts of different social and political objects.

Political trust is an indicator of diffuse political support of the kind that is necessary for the long-term, stable, and effective operation of democratic government (Easton 1965, 1975; Fuchs, Guidorossi, and Svensson 1995). In this respect, however, there is a difference between trust in political leaders and confidence in political institutions (Luhmann 1979; Listhaug 1995; Seligman 1997; Giddens 1990: 83–8). The distinction between trust and confidence makes theoretical sense for two main reasons. First, institutions are based on systems, rules, and formal procedures that operate independently of the face-to-face relations of personal trust. Trust in people is based upon personal knowledge of people, social types, or social situations, whereas confidence in institutions is based on knowledge of structures and systems, and the rules and practices that govern their operation, irrespective of whether we know personally the people who happen to run the institutions. Second, institutional confidence is aligned with the concept of legitimation, which has a more profound importance for government than trust in politicians. It is not unusual for citizens to distrust particular political leaders, but such feelings can change quickly if political leaders or a government are replaced by another. Lack of trust in a political office holder does not necessarily threaten democracy, but deep-seated lack of confidence in the institutions and system of government is altogether a different matter that goes to the very foundations of the system of government.

Following this distinction, most surveys distinguish between trust in people (social or political), and confidence in institutions (public or private). I will follow the same practice here, except when quoting others who do not make the distinction.

The difference between trust and confidence brings us to a third set of distinctions commonly used in research on political support. Following Easton (1965, 1975; see also Dalton 1999, 2004), it is general practice to analyse support at three levels of the political system, namely authorities, regimes, and communities. The first refers to the evaluation of political leaders (e.g. trust in politicians, identification with parties), the second concerns the performance and institutions of government (e.g. confidence in parliament, confidence in the police, civil service, and courts, and satisfaction with the way democracy works) and the third deals with society and the nation as a whole (e.g. national pride, national identity, willingness to fight for one's country). The threefold distinction is useful because as one moves from the authority to community, so one moves from the more superficial and changeable, to the more fundamental and basic.

The distinction between authority, regime, and community enables us to make better sense of the figures for declining political trust and confidence that characterize many advanced democracies. This leads us to the next section of the chapter.

2. The Decline of Political Trust and Confidence

There is widespread concern about declining trust in government and politicians in many Western democracies. It is ironic that the citizens of the world's oldest and most stable democracies seem to be increasingly disillusioned with the government and politics of their countries at the same time as a third wave of democratization is trying to consolidate itself in large parts of the globe. Evidence of increasing political dissatisfaction in the West is rather strong, although it is not yet clear whether the trend will continue in the future, or whether it is a temporary setback that might be reversed. Democracy is a resilient system and shows, as it is designed to, a considerable capacity for adaptation and self-correction. Nonetheless, the figures over the last decade or two are large, widespread, and persistent enough to cause worry.

Studies of individual countries including Japan, Germany, New Zealand, Sweden, France, Canada, the USA, and the UK show varying degrees of decline in political trust.[2] Cross-national analysis of the figures for Western democracies confirm the general picture. Since the 1990s, most (not all) of the advanced industrial democracies have shown signs of a weakening of political trust and support to varying degrees. In some the decline has been comparatively slow but persistent over a thirty-year period (Sweden, for example), while in others it is more recent and sometimes rather dramatic (Finland). But most of the OECD nations show decline, and many of them show decline on a wide variety of different measures—trust in politicians, an increasing belief that they are self-seeking, dishonest, corrupt, unaccountable, and out of touch, falling levels of political competence, increasing dissatisfaction with the way democracy works, and a decline in party membership and identification.

As one recent survey of trends in eighteen Western countries concludes: 'citizens have grown more distant from political parties, more critical of political elites and political institutions, and less positive toward government ...' (Dalton 2004: 45–6; see also Klingemann 1999; Dalton 1999; Nye, Zelikow, and King 1997). The evidence shows erosion of support for authorities and regimes but little change at the most basic level of community and belief in democracy as a principle of government. Western citizens are, in other words critical citizens, who generally retain a sense of identification and pride in their countries, and who support democracy as the best form of government, but are increasingly less satisfied with their political leaders and with the way that the institutions of government work. As Norris (1999: 269) puts it: 'The evidence ... suggests that we have seen the growth of more critical citizens, who value democracy as an ideal yet who remain dissatisfied with the performance of their political system, and particularly the core institutions of representative government.'

Declining political trust and confidence in Western nations has not yet reached a critical stage. The overwhelming proportion of citizens continue to regard democracy as the best form of government, and continue to express high levels of pride in their country. Nevertheless, the Russians say that 'Fish rot from the head down', and the fact that we are not in crisis at present does not mean that we will avoid it in future. Perhaps loss of trust in politicians and decay of confidence in government institutions signals something of great potential significance? Should we be concerned?

3. Is it Possible to Trust Politicians, and does it Matter if we do not?

The idea that democratic government requires a degree of popular trust and confidence may seem to be a truism, but it has been challenged on two separate grounds. The first argues that lack of personal knowledge about political leaders makes it impossible or meaningless for citizens to express trust in them in the first place. The second claims that distrust of politicians is politically realistic and healthy for democracy.

Personal Knowledge

Hardin (1998, 1999, 2000: 32–5) questions whether it makes any sense for citizens to express trust in government leaders. 'Can citizens meaningfully trust government in the way that they do trust their friends and associates?', he asks, and replies, 'In general, no. For me to trust you, I have to know a fair amount about you.' (Hardin 2000: 34; see also Luhmann 1979: 46.) In modern large-scale democracies we know too little about the motivations, values, and intentions of our political leaders to make sensible judgements about their personal trustworthiness. Trust requires a calculation of probabilities and risk based upon knowledge of people, and we simply know too little about our political leaders to know whether we can trust them or not.

There are reasons to question the idea that trust must be based upon personal knowledge of individuals. Trust is usefully defined as a relationship between people, but it does not follow that it is necessarily based entirely or even primarily upon personal knowledge. In large-scale society we constantly interact with total strangers, and it makes sense to express generalized trust or distrust of them even though we know little or nothing about them personally. For example, I regularly place my life in the hands of airline pilots. My trust in their professional capacities is not based on personal knowledge, but in my belief that they are likely to be properly trained, their fitness to fly constantly monitored, and that they go through the safety checks before take-off. I know that no system is foolproof, and I know that some pilots, planes, and airlines have a better safety record than others, but my trust or distrust is based on a belief that good airlines and their planes and pilots have elaborate rules and procedures for minimizing risk. My sense of trust does not depend upon personal knowledge of anyone in particular, but in the system of air safety controls, and so my trust in the pilots of AirSafeAshouses planes taking off from an airport with an excellent safely record is likely to be considerably higher than in Air Crash pilots taking off from an airport set deep in a remote mountain range in South America, though I know absolutely nothing about the pilots, the airline mechanics and safely inspectors, and the air traffic controller concerned. Air travel and government (and most other modern institutions) are similar in that they set up rules and procedures to minimize the risk of untrustworthy behaviour. In Hume's words, democracy is a set of 'institutions designed for knaves' (see Goodin 2000; Sobel 2002: 146–9). It is precisely because it is unwise to *assume* the trustworthiness of politicians that effective democracies construct an elaborate set of rules and procedures to try to minimize their opportunities for untrustworthy behaviour. Democracies have all sorts of mechanisms for this—the division of powers, constitutional courts, regular elections, judicial oversight, freedom of speech, transparency in government, parliamentary question time, freedom of information, due process of law, a free press, public inquiries, legislative committees, special investigators, ombudsmen, and public audits, and reviews of many kinds. The more effective these mechanisms, the more it makes sense to trust politicians, whether we know anything about them as individuals or not. To this extent, political trust is not necessarily based on a personal knowledge of the motivations and intentions of politicians, but on a confidence in the institutions designed to keep them on the straight and narrow. This means that trust in politicians is likely to be linked empirically to confidence in democratic institutions.

The Need for Realistic Cynicism

The second reason for doubting the virtue of trust in government is a pragmatic one. Citrin (1974: 988) argues that a degree of 'vigilant skepticism' and 'realistic cynicism' is good for democracy. In the same way Huntington (quoted in Orren 1997: 88–9) claims that 'Distrust of government is as American as apple pie.' It will not do for Americans, or anybody else, to maintain a starry-eyed faith in the goodness and honesty of their politicians.

This argument is perfectly correct: we should not, as a matter of principle, take the trustworthiness of politicians for granted. But the argument is also beside the point. It is precisely because we cannot assume the trustworthiness of politicians that we design our political institutions for knaves, and to the extent that some democratic systems are better than others, it is reasonable to place more trust in the politicians of some countries than others. World Values Surveys show that political trust is much higher in Norway, Denmark, Iceland, and the Netherlands, than in Argentina, Romania, Brazil, and Russia. This is not because Norwegians, Danes, and the Dutch are so politically naive that they are not vigilantly sceptical and realistically cynical. On the contrary, it is their realistic evaluation of their system of government, based on the accumulation of experience, which leads them to place comparatively high levels of trust in their politicians and confidence in their government institutions. As Pettit (1998: 295–314) argues, there is nothing strange about setting up a system of checks and balances based on a deep distrust of politicians as a general rule, while, at the same time, trusting a particular set of leaders in office. Conversely the Argentines, Romanians, and Brazilians are more politically suspicious and distrustful than the Danes and Norwegians, not because they are more realistic and cynical but because of their political experience of government and politicians.

If we follow this line of argument it makes sense to trust politicians even if we have little or no personal knowledge of them. It also makes sense to build democratic institutions on a healthy degree of principled distrust of politicians, in order that we may hope to trust them in practice, if only because they are so constrained by institutional procedures and practices that they are generally unable to betray their trust. If this is so, then low or declining levels of democratic trust and confidence is not to be welcomed as an expression of cynical realism. It should be treated as a sign that something is wrong with the democratic system of controls over politicians. If this is the case, then it is also important to ask what the origins of political trust are, and why it has declined in the west?

4. Individual Theories of Political Trust and Confidence

Some theorists argue that political trust has its origins in the psychological and social characteristics of individuals and their personal experiences; others claim that political trust, like social trust, is a societal or systematic property that is strongly influenced by the features of society as a whole, such as its culture and institutions. Although the two are not incompatible by any means, the first school takes a micro, bottom-up approach that argues that trust and confidence have their origins in the personal characteristics of individuals, while the second focuses on the macro ways in which social and political systems may have an effect on individual trust.

The Trusting Personality

According to some social psychologists, trusting dispositions are acquired as a result of childhood socialization and are part of the individuals core personality. This tends to persist throughout life, unless challenged and changed by later experiences. Trust is an intrinsic part of a larger syndrome of personality characteristics, including optimism, a sense of control over ones own life, and a belief in the possibility of cooperation with others. The distrusting are misanthropic personalities with a rather dismal view of fate, human nature, and the possibility of peaceful cooperation between individuals (Erikson 1950; Allport 1961; Cattell 1965; Rosenberg 1956, 1957). Trusting people are sunny and confident and have a cooperative attitude towards life (Uslaner 1999: 138; 2002: 79–86).

Until recently social psychologists have been mainly interested in social trust and have had little to say about political trust, but their theories do have some implications for politics. First, since trust is a core personality characteristic, it is likely to change only slowly over time (unless challenged by trauma). Second, since trust is a core personality syndrome, and since trust is all of a piece, social and political trust necessarily go together. Third, trusting personalities are likely to lean towards liberal and left ideologies that are optimistic about human nature and emphasize the goodness of people and their capacity to cooperate.

Not much empirical research on the social psychological approach to political trust has been done; the little that has been published does not confirm the theories very strongly. There is evidence that social trust in others is consistent over time at both the individual and country level (Uslaner 2002: 66–7; Delhey and Newton 2005), but trust in politicians can fluctuate quite rapidly in response to such events as Watergate (Nixon), Lewinsky (Clinton), and the Iraq War (Blair).

This suggests that social and political trust can vary independently of each other, a conclusion supported by research showing that social and political trust are not closely associated. Contrary to the 'single personality syndrome' theory, most studies have found weak or insignificant correlations between social and political trust, and conclude that the two are separate and unrelated (Kaase 1999: 14; Wright 1976: 104–10; Craig 1993: 27; Orren 1997; Newton 1999*b*). More recently, however, work carried out by the Citizenship, Involvement and Democracy (CID) project finds strong and highly significant associations between generalized social trust and confidence in public institutions across thirteen countries in West and Central Europe (Zmerli, Newton, and Montero 2007; see also Dalton 2004: 70–1, 76). These results have been confirmed by preliminary results using the European Social Survey (ESS) covering twenty-two European countries (Zmerli and Newton forthcoming).

While the CID and ESS results are wholly at odds with the considerable weight of previous research, they are robust, consistent across all countries in the surveys, and there are good reasons why they might be more accurate and satisfactory than earlier work. They are based on more sensitive and reliable measures of social trust (the first principle component of the three-item Rosenberg trust scale) and political confidence (the first principle component of confidence in a set of eight public institutions). Respondents are also asked to rate their trust and confidence on an eleven-point scale, rather than the more truncated two or four-point rating scales used in previous work. When the CID and ESS results are coarsened and simplified by using one trust question, one confidence in parliament question, and two or four-point rating scales, the statistical associations between social and political trust fall to barely significant or insignificant levels, as it does in most previous research. It seems that social and political trust may, after all, be statistically associated. This does not necessary confirm the 'trusting personality' school, but it does suggest that there is, after all, a statistically significant tendency for social and political trust to go together.

Individual Experience and Political Trust and Confidence

A variation of the social psychological approach places less importance in early childhood socialization than on everyday experience in later life. According to this more sociological school, political trust is a product of individual objective and subjective social characteristics and political experience. The objective variables are primarily socio-economic status, income, education, religion, sex, ethnicity and age, and personal experience of unemployment and being on the winning or losing side of political life. The subjective variables are mainly job satisfaction, life satisfaction, happiness, and support for or identification with a political party or government.

Once again, evidence for these suggestions is mixed and rather weak. It shows that although there is some overlap between social and political trust, the two seem to have rather different social and political origins for the most part. While social trust is likely to be expressed by the winners in social life—those with money, education, and prestige, and those who are happy and satisfied with life and their job (Orren 1997; Newton 2004: 19, 173; Whiteley 1999: 40–1; Patterson 1999: 187–91; Putnam 2000: 138; Putnam 2002: 403; Wuthnow 1999). In contrast, confidence in political institutions and trust in political leaders is not associated with social winners and losers so much as with political winners and losers. Political trust and confidence is generally randomly distributed between social groups and types (Abramson 1983: 532; Putnam 1995; Orren 1997: table 4.1; Lawrence 1997; Newton 1999*b*) and more strongly associated with political characteristics, including interest in and willingness to talk about politics, national pride, belief in open government, and support for the party or coalition in government. The latter is the 'home team effect' in which those who vote for the winning party are rather more likely to trust its leaders and express confidence in the institutions of government, than those who voted for the opposition (see Anderson and LoTempio 2002).

Although political trust and confidence is sometimes associated with individual political characteristics, the associations tend to be patchy and weak in terms of statistical significance and proportion of the variance explained. The research results are neither negligible nor to be ignored, but nor are they at all robust or convincing. We must look elsewhere for more satisfactory explanations of political trust and confidence. One classic theory emphasizes the role of voluntary associations.

Voluntary Associations and Political Trust and Confidence

Although they have their good and bad sides, many voluntary associations in democratic societies are said to teach the arts of cooperation, empathy, and reciprocity, the skills of social organization, and an appreciation and understanding of the public interest and the common good. They are also said to encourage or create a sense of trust among their members and to draw them into civic and community participation and political activity (Almond and Verba 1963; Verba, Schlozman, and Brady 1995; Parry, Moyser, and Day 1992: 85–8; Boix and Posner 1998; van Deth 2000).

However, it seems that there is a tendency to exaggerate the importance of voluntary associations on the part of writers from John Stuart Mill and Alexis de Tocqueville to contemporary social theorists of social capital and civic society. Most citizens do not devote a great deal of time to voluntary activity, compared with the hours given to school, work, the family, and the immediate community. In addition, it seems likely that most people will attach far more importance to each of these aspects of their daily lives than to their voluntary activity (Levi 1996: 48; Newton 2004: 20). As Parry, Moyser, and Day (1992: 90) point out 'Few citizens are deeply embedded in formal organizational networks'.

Empirical evidence about the links between voluntary activity, political trust, and political activity is inconclusive. Some research shows an association, but more usually the empirical results are weak and patchy. The link between voluntary activity and social trust is not at all close or consistent, and that between voluntary activity and political attitudes and behaviour is generally weaker (see Citrin 1974; Rosenstone and Hansen 1993; Miller, Goldenberg, and Erbring 1979; Whitely and Seyd 1997: 21; Kaase 1999: 17; Billiet and Cambre 1999; Putnam 1995; Putnam 2000: 136–7; Brehm and Rahn 1997; Stolle 2001, 2003; van Deth 1996; Dekker, Koopmans and van den Broak 1997; Newton 1999*a*, 1999*b*; Newton and Norris 2000: 64; Whiteley 1999; Stolle and Rochon 1999; Stolle and Hooghe 2003: 233–4; Uslaner 2002: 128; Mayer 2003; Diani 2004; Zmerli, Newton, and Montero 2007; Pattie, Seyd and Whiteley 2003; Wollebaek and Selle 2003). Even if the statistical associations between voluntary activity and political attitudes and behaviour correlations were strong and significant, it would still be necessary to try to unravel their causal relations: do the trusting tend to join voluntary associations, or do voluntary associations generate trust?

Poor research results has led some to explore more refined propositions, including the effects of different kinds of organizations (Stolle and Rochon 2001), the interaction of self-selection and socialization effects (Hooghe 2003*a*), the importance of multiple group membership (Teorell 2003), and the importance of the life history of voluntary group membership rather than just current membership (Hooghe 2003*b*). Most recent attention has turned to the difference between bonding associations (that bring together similar social types) and bridging ones (that bring together different social groups and hence bridge social cleavages) in the expectation that bridging groups will have a bigger impact on trust. So far very little work on the political impact on bridging and bonding associations has been published and the results are mixed so far as the benefits of bridging associations are concerned (Zmerli 2003; Hill and Matsubayashi 2005).

To summarize the general conclusions of this section, much of the empirical research on the individual origins of political trust is rather weak and inconclusive. The association between social and political trust in individual cases is disputed, there is little evidence that social groups differ very much so far as political trust and confidence are concerned, and the link between voluntary activity and political attitudes and behaviour is weak and variable—it seems to be contingent on unknown factors of time, place, and circumstances (Lowndes 2004: 61). The strongest finding seems to be that political trust and confidence are more likely to be expressed by political winners who voted for and identify with election-winning parties—the home team effect.

5. Societal and Institutional Theories of Political Trust and Confidence

Societal and institutional approaches do not deny individual and socio-psychological variations in trust and confidence but argue that social structures and institutions also have an important impact. Democracy is a set of institutions designed for knaves, with an elaborate array of mechanisms, rules, practices, and institutions designed to keep those in government and politics on the trustworthy straight and narrow, so far as this is possible. If these institutions work reasonably well, it can be argued, then citizens will be inclined to express their political trust and confidence, whatever their personal characteristics and socio-psychological make-up. This proposition is best tested at the cross-national comparative level, so we should now turn to this type of research.

Democracy, Trust, and Confidence

Whereas individual-level research has not been notably successful (until very recently) in finding a correlation between social and political trust and confidence, or between social trust and other indicators of political attitudes and behaviour, aggregate, cross-national research has established the association without much difficulty. Political trust and confidence is higher in democracies (a not very interesting or surprising finding) but, much more interesting, general social trust is also higher the more developed and established the democracy. Democratic political systems that perform fairly and effectively and treat people equally tend to have citizens who are likely to respect the public interest, play their part as citizens, support the institutions of government, avoid free riding, and who are trusting and trustworthy (Anderson and Guillory 1997; Dunn 1990; Tarrow 1996; Skocpol 1996; Foley and Edwards 1996, 1997; Levi 1998; Brehm and Rahn 1997; Pagden 1988: 1008; Inglehart 1999; Offe 1999: 65–76; Rothstein 2000; Rothstein and Stolle 2003: 191–209; Newton 2001; Huysseune 2003: 211–30; Putnam 1993: 111–15; Evans 1996; Newton and Norris 2000: 70; Woolcock 1998; Booth and Richard 2001: 55; Paxton 2002; Uslaner 2002: 223–9; Delhey and Newton 2005).

The implication is that generalized social trust may be a foundation for democracy (the micro, individual, and bottom-up approach), and also that democracy may help to create a political framework in which individuals behave in a trustworthy manner (the macro, institutional, and top-down approach). In this sense, institutions matter; they help create a framework that makes it rational and possible for individuals to behave in a trustworthy manner. Even elections themselves can have the effect of increasing generalized social trust (Rahn, Brehm, and Carlson 1999).

Uslaner (2002: 228) attacks the idea that democracy can generate social trust. He accepts the fact that democracies are more trusting socially but argues, on the basis of extensive survey analysis, that 'Trust is neither a prerequisite for nor a consequence of democracy.' Democracies do not produce social trust, but non-democracies can destroy it, a point also made by various studies of Central and West European countries (Mishler and Rose 1997, 2005; Sztompka 2000; Warner 2003). However, Uslaner (2002: 221) allows that 'Honest government depends upon a foundation of generalized trust', and (2002: 245) that 'while trust does not make democracy . . . it does make democracy work (better)'. In other words, he allows for a direct causal connection between the lack of democracy and social distrust, and an indirect association between democracy and social trust.

Voluntary Organizations, Political Trust, and Confidence

Cross-national comparative research uncovers some evidence of a connection between voluntary associations and democratic support (Knack and Keefer 1997; Warner 2003; Paxton 2002) but is rather patchy and inconsistent. The cross-national study with the largest number and diversity of nations, and with the greatest number of control variables, fails to find any significant association between voluntary activity and social trust, although it finds that generalized trust is strongly associated with democracy, good government, and an absence of corruption (Delhey and Newton 2005). The weak and inconclusive results of individual-level research are thus repeated at the aggregate, cross-national level—voluntary associations do not seem to count for much in this respect, but political trust is associated with individual political attitudes and with democratic institutions.

One reason why voluntary associations and activity are not important for political trust and confidence is suggested in a study of city government in the UK (Smith, Maloney, and Stoker 2004). This finds that interorganizational social capital can be actively promoted by local government authorities (the top-down effect), but this does not necessarily result in higher levels of confidence among group activists. Voluntary associations are so thick on the ground that the officials of local government can only cooperate with a small number of them, thereby excluding the rest to a greater or lesser extent. The comparatively small number of associations on the inside of the local political system may be supportive of the system, but those who are excluded are more likely to be dissatisfied and mistrustful to some degree.[3]

The Rainmaker Effect

Putnam, Pharr, and Dalton (2000: 26; see also Pharr 2000: 188; Newton and Norris 2000; and Van der Meer 2003) offer a general explanation for the top-down connection between social and political trust and the institutional arrangements of democratic government and society, which they call the 'rainmaker hypothesis'. In the same way that the rain from heaven falls on the just and the unjust alike, so also the operations of social institutions affect all citizens to a greater or lesser extent, irrespective of whether they are trusting individuals or not. Behaviour towards fellow citizens is likely to be more honest and trustworthy where there is an impartial police force, a just legal system, and an honest bureaucracy. There is usually a strong correlation between social trust and confidence in the police, courts, and state bureaucracy because these are precisely the public institutions that are supposed to maintain an impersonal, universalistic, and rule-bound social order that encourages trustworthy behaviour among citizens (Newton 2001: 1134; Kumlin and Rothstein 2005).

Individuals are more likely to be trusting and to behave in a trustworthy manner if they believe that they are treated in the same way as everyone else, if the law is upheld, and if standards of conduct are enforced in a fair and impartial manner. Hence generalized social trust is associated with respect for citizen rights and civil liberties (Knack and Keefer 1997: 1275–6), the enforcement of civil contracts (Tyler 1998), and an absence of corruption (Van der Meer 2003: 147; Delhey and Newton 2005) and tax evasion (Scholz 1998).

Social trust is also higher in countries with welfare systems based on universal principles (Rothstein 1998; Rothstein and Stolle 2003). Means-tested systems require people to demonstrate their need for welfare services and officials to verify the need. This tends to create suspicion and distrust on the part of welfare clients, who feel they may be discriminated against by officials, and on the part of welfare officials who feel that clients may try to cheat the system. According to a Danish study (Torpe 2003) the welfare state also helps to preserve the social infrastructure of civil society that facilitates the production of social capital.

To summarize this section on top-down, institutional, and systemic theories of political trust, there is a good deal of cross-national empirical research to suggest that the more democratic the society the higher its level of political (and social) trust is likely to be. In particular there is an association between social and political trust and respect for citizen rights and civil liberties, the enforcement of civil contracts, an absence of corruption and tax evasion, and a universalistic welfare system. Confidence in the police, the courts, and the state bureaucracy are particularly important for social trust, and, not surprisingly confidence in the central institutions of democratic government (parliament, the government, the cabinet) is closely associated with political trust. Why, then, is political trust declining in many Western democracies?

6. Theories of Declining Political Trust and Confidence

Among the many theories that try to explain the recent loss of trust and confidence in Western democracies are (1) increasing expectations of government, (2) globalization, (3) the mass media, (4) social capital, and (5) political

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performance. These explanations are by no means incompatible, and different writers use various combinations of them to explain declining political support.

Citizen Expectations

Democracy is a variable not a constant. With rising levels of affluence and education, and with ever greater amounts of political information, it may be that governments are increasingly unable to satisfy the democratic demands and expectations of their citizens. This may create disillusionment with democracy, at least in its present form. Inglehart (1999: 236–56) argues that the postmodern phase of political development produces declining respect for authority and for hierarchical institutions, but growing support for democracy as a principle of government. Here, however, we must distinguish between the slow rate of change in basic political values (towards postmodern and post-material values) and the much faster rate at which attitudes of political trust and confidence can fluctuate. Similarly, some countries show falling rates of political trust and confidence, whereas others do not, although both are very similar in terms of culture and values (see the discussion of Sweden and Denmark below). Value change can explain long-term trends, but it cannot explain the large and sudden changes in some democratic nations.

Globalization

In a globalizing world, it is claimed, national governments lose political and economic power to increasingly powerful external forces, such as multinational companies, international crime and terrorism, global pressure groups, social movements and NGOs, and population movements. Citizens increasingly express their dissatisfaction with their failing governments with declining political trust and confidence. Though plausible the theory may tend to underestimate the ability of citizens to understand the world they live in and evaluate the capacity of governments accordingly. Voters do not seem to blame their own governments for international terrorism or for immigration pressures, although they may well blame them in particular cases for the way they have handled these problems. Trust in American government rose steeply after 9/11 but declined as a result of the Iraq War. This example also suggests that some aspects of globalization may increase rather than decrease government support.

Nor does it explain why citizens have lost trust in politicians and confidence in political institutions, but retained faith in democracy as a form of democracy. If the problems of international crime and terrorism, population movements, and multinational companies tend to prey on the weaknesses of open, liberal-democratic states, then why have their populations not started to revise their opinions of democracy and liberalism, but have turned on their leaders and institutions? Perhaps the latter will come with time, but meanwhile globalization seems to have had little effect on basic attitudes towards the liberal-democratic order.

The Mass Media

A large body of literature argues that the modern mass media, especially television, undermine democratic support by creating a sense of alienation, cynicism, and fearfulness, and by encouraging distrust of politicians and dissatisfaction with the institutions of government (Putnam 1995). They do so in many ways: by concentrating on bad news about disasters, incompetence, corruption, and conflict; by indulging in 'attack journalism' that constantly picks on the faults and failings of politicians; by presenting a constant flow of new news that leaves citizens bewildered and uncomprehending; and by personalizing, trivializing, simplifying, and sensationalizing events and issues. The result is 'media malaise', or the tendency of the modern media to generate mass discontent and disillusionment with government and politics. This is said to be especially true of television, which not only saturates Western society and has become the main source of political news, but also has an enormous and dramatic visual impact.

The speculative literature on 'media malaise' is large and strikingly consistent in its conclusions that the mass media have a strong and malign impact on society and government, but empirical research suggests a far more qualified and cautious approach. It suggest that (1) media impacts on mass attitudes and behaviour are often quite small, (2) that they can be both positive and negative so far as democratic support is concerned, (3) that the effects vary from one medium to another and the messages they convey, and (4) that media effects depend heavily upon the individual characteristics and social milieu the people using the media in the first place (see, for example Norris

2000; Newton 1999*c*, 2006). Media impacts are limited because they are only one of a range of influences that include class, race, education, age, gender, and religion. Conflicting media messages compete for influence, and media institutions are also bound, in part, by the 'golden chains of the market', which force them, to some extent, to respond to existing social attitudes as much as they try to create them.

Survey research suggests that the political impact of the mass media can be both positive and negative, informing and mobilizing some, and generating media malaise in others. In the case of educated people reading quality newspapers or watching quality television news and current affairs programmes, the effects seem to be democratically beneficial (informative and mobilizing). For the poorly educated who watch a lot of entertainment TV, there is some evidence of media malaise, but it seems not to be very strong. News media effects are likely to be weakest where people know most about news items and have personal experience of the news items—issues such as public services, inflation, unemployment, and the public image of political leaders, as opposed to foreign affairs, and highly complex and technical matters of economics and science. Mass media impacts are themselves mediated by informal discussions of politics among families, friends, colleagues, and neighbours. Indeed, some research shows that the effect of such informal discussion circles is greater than that of the mass media (Beck et al. 2002; Schmitt-Beck 2003).

The extent to which declining political trust and political support has been caused by the mass media has often been exaggerated by those whose attention has focused on the low and falling quality of the content of the media. They have paid less attention to the difficult problem of demonstrating media effects empirically, and have often assumed them rather than trying to test media malaise theories against the evidence. The mass media are one among many influences, and their impact can be both benign and malign.

Social Capital

Evidence to support the theory that social capital is an important basis of political trust and confidence has already been discussed in this chapter. Voluntary organizations do not seem to play much of a role in this respect. On the other hand, there is certainly a link between generalized social trust, on the one hand, and political trust and confidence on the other. The link has been uncovered at the cross-national aggregate level, and arguably holds at the individual level as well. Many of the most advanced and stable democracies are marked by a syndrome of mutually interdependent characteristics including high generalized social trust, confidence in democratic institutions, satisfaction with democracy, a well-founded civic society, comparatively high levels of civic engagement and cooperation, low levels of corruption and tax evasion, and a regard for property rights and civil liberties. To this extent, there is quite strong evidence that social capital and support for democratic politicians and institutions, tend to go together. [4]

Political Performance

While economic performance does not seem to have had a big impact on democratic support at the regime and community levels, political performance has a large impact. Empirical research shows that citizens are more likely to support their politicians and political institutions if they think they perform well, are open and fair, if the party system is inclusive, if politicians are accountable, if government performs well and is stable and durable, and if civil liberties are protected (Miller and Listhaug 1990, 1999; Weil 1989; Fuchs, Guidorossi, and Svensson 1995; Weatherford 1992; Harmel and Robertson 1986; Norris 1999: 232; Miller 1974; King 1997; Borre 1995: 354; Knack 2002; Mishler and Rose 2005). Lack of transparency, corruption, and political scandal are especially likely to undermine trust and confidence, although the impact is mediated to some extent by the 'home-team effect' (Bowler and Karp 2004; Seligson 2002; Anderson and Tverdova 2003; della Porta 2000; Welch and Hibbing 1997; Peters and Welch 1980; Pharr 2000).

Four Case Studies: Finland, Sweden, New Zealand and Japan

If the preceding analysis is accepted, it would seem that social capital and political performance are likely to have the strongest effect on political support. We can see the interplay between them in the case of four democracies that have experienced a steep decline of political trust and confidence in recent times. In Finland, Sweden, New Zealand, and Japan most indicators of political support for authorities and regimes have registered an unusually large fall, sometimes sudden (Finland and New Zealand), sometimes less dramatic but more prolonged (Japan and Sweden). The four countries exhibit striking similarities in two respects.[5]

First, none show many, if any, signs of loss of social capital at the time of falling political trust and confidence, or the period leading up to it. On the contrary, all maintained or even improved their social trust, their voluntary association activity, and their level of informal social engagement and civic involvement. There is no evidence to suggest that the erosion of social capital is the cause of their political problems. Nor can a rapid rise in citizen expectations or a change in basic postmodern and post-material values explain their steep decline of trust and confidence.

Second, all four countries experienced severe economic or political problems, or both, at the time of falling political support. Finland entered into a period of deep economic recession at the end of the 1980s, which provoked political turmoil. The Swedes also experienced economic problems that caused the long-standing Swedish corporatist model to break down, while their close cultural cousins, the Danes and Norwegians, experienced far fewer economic and political problems, and no great loss of political support. The sharp decline of the New Zealand economy also provoked major political problems and strong support for constitutional reform in 1991–2. And in Japan a long serious of corruption scandals from Lockheed in 1976 to the Recruit affair in 1989, as well as a high level of routine misuse of public funds, corresponds with low and falling political support.

The four case studies suggest that social capital has little or nothing to do with political trust and confidence, and political performance everything. Nonetheless, it is unwise to reject social capital theory because aggregate cross-national figures show an association between generalized social trust on the one hand, and a wide variety of indicators of political support, democratic development, and government effectiveness, on the other. It seems that social capital is a necessary foundation for a well-functioning democracy and the levels of political trust and confidence that generally accompany it. At the same time, even countries with the highest levels of social capital can run into economic and political problems, and if severe enough these can result in sharp declines of political support, while social capital remains intact in the short to medium term, at least. In fact, there are suggestions in the evidence that the more social capital the greater may be the loss of political support, especially among the best educated and politically best connected and informed sections of the population.

7. Problems of Cause and Effect

We cannot leave this short discussion of trust and politics without discussing the tricky matter of causal relations. The bottom-up view of trust and politics, implicit in the classical work of Mill and de Tocqueville and many theorists after them, presents a relatively simple causal connection: social trust helps to produce democracy, and helps it work better. The top-down view reverses the causal relations: democratic institutions and good government promote both political and social trust. The two views are not necessarily incompatible, but together they produce a complex cause-and-effect interdependency between trust and politics. This makes it difficult to sort out the tangled relations between social and political trust, and the macro, top-down and micro, bottom-up views of what is cause and what is effect.

Research shows that social and political trust is an integral part of a single, complex syndrome of ethnic/cultural, social, economic, and political conditions that are interdependent and mutually supporting—religion, income and income equality, social trust, stable democracy, economic development, lack of corruption, and political support (Inglehart 1997, 1999; Welzel, Inglehart, and Klingemann 2003; Delhey and Newton 2005). This means that although political trust is important and interesting in its own right, it must also be seen as integral part of a larger and broader syndrome of social, economic, and political features of society that are usually intertwined and interdependent. It also means that a research design capable of disentangling these relations is theoretically complex, and calls for good multilevel, cross-national, time-series (probably long-term time-series) data. While it is possible to devise methods to untangle some of the threads, a good understanding of the whole causal structure is a different matter. Sorting out this tangle remains a major challenge for social science research. It may not be possible to do more than identify its component parts, and some of their interrelationships.

Notes

1. An obvious omission in this list of topics about political trust is the absence of any discussion of its consequences. This is because there is rather little literature on the subject, a gap in need of filling.

2. On Japan see Pharr 1997: 200; Inoguchi 2002; Kobayashi undated. On Germany see Fuchs 1999: 135–41 and on Finland see Pesonen and Riihinen 2002. Vowles 2002 and McVey and Vowles 2005 write about New Zealand, and Holmberg 1999, Listhaug and Wiberg 1995, and Rothstein 2002 write about Sweden. Belanger and Nadeau 2005 document the decline of political trust in Canada. On the USA see Putnam 2000, Craig 1993, Nye and Zelikow 1997, and Orren 1997. On the UK see Hall 1999, 2002, and Bromley, Curtice, and Seyd 2001. On France see Mayer 2003 and Worms 2002.
3. One important caveat must be entered against the conclusion that in the aggregate voluntary associations seem to have little impact on democratic attitudes and behaviour, namely that it is impossible so far as this author is aware, to find a good aggregate indicator of voluntary activity or membership. There is, for example no aggregate measure of voluntary organization density, or expenditure, or contribution to GNP. There are some figures for a small number of countries, but they seem not to be particularly reliable, valid, or comparable. Lacking such measures, aggregate studies are forced to fall back on national averages of individual membership and activity (an aggregate of individual activities), which are not proper systemic measures and quite possibly inadequate substitutes for them.
4. Solt (2004) is one of the few aggregate studies that finds nothing to support social capital.
5. The four cases are outlined in some detail in Newton 2006.

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CHAPTER 10

POLITICAL INSTITUTIONS AND GENERALIZED TRUST

BO ROTHSTEIN
DIETLIND STOLLE

1. Introduction

If social capital is believed to have all the social, political, and economic advantages evinced by the theory and the rather extensive empirical research to date, the question of how it can be produced logically follows. Or put differently, if social capital is to be conceptualized as an *asset* for individuals, organizations, and societies (that is, if it really is to be understood as a form of *capital*), the follow-up question is about how to generate it (or to take the capital metaphor further, how to bring about investments).[1] With respect to human and physical capital, the answers to the above questions are rather obvious and straightforward (albeit not always easy to achieve in practice), but the puzzle is considerably more difficult to solve when it comes to social capital, particularly the part of social capital that is conceptualized as generalized (or social) trust.[2]

There is no easy quick fix for the production of generalized trust and we cannot easily talk other people in general into trusting us. In the search for the sources of generalized trust, many trace its roots to deep-seated personal beliefs that may have been instilled in early childhood or resulted from formative (and when it comes to mistrust, traumatic) experiences (Hardin 2002; Uslaner 2002; Delhey and Newton 2003). Persuading a misanthropic and cynical group of individuals who deeply mistrust their fellow human beings to change their minds would probably not be counted among the easier projects in life. Others have expanded that view to explain not just the individual continuity to trust over one's lifetime but societal trajectories of trust that show stickiness (Fukuyama 1995; Putnam 1993). In this approach, societal capacities to trust 'other people in general' have been developed over centuries in lasting cultural patterns of social interactions.

True, the trust differences between low and high trust societies are dramatic. If we compare the percentage of people who respond positively to the question of whether they think most other people in their society can be trusted, the variation that needs to be explained is large. For example, in countries such as Norway, Denmark, and the Netherlands, the percentage of people stating that they believe most other people in their societies can be trusted is around 60 per cent, while in countries such as Brazil, Macedonia, the Philippines, and Turkey, social trust is around a meagre 10 per cent.[3] There is of course also a lot of variation between individuals living in the same country when it comes to social trust that is equally important to explain. However, if the solution for developing societal assets is the passage of time in a socially amenable environment, then any policy ideas generated by social capital theory are not very useful. Since there is no known policy for changing the course of history, there is very little policy makers can actually do to increase the level of social capital in their societies. As Putnam aptly observes in *Making Democracy Work*, 'the astonishing tensile strength of civic traditions testifies to the power of the past' (1993: 162).

As a counter to this deterministic interpretation of what generates social capital, in this chapter we highlight how it is embedded in and linked to contemporary political, administrative, and legal institutions. Not all political institutions matter equally, however, in fact we argue that trust thrives most in societies with effective, impartial, and fair administrative practices, and it depends on how citizens experience these practices in their direct contacts with what has become known as the 'street-level bureaucrats' (Lipsky 1980). In this chapter we explore the logic of an institutional theory of social capital in which the state and public policies play a central role. The central theme in this approach is to specify how generalized trust (i.e. trust in other people) is connected to different types of 'political trust' (i.e. trust in different political, legal, and administrative institutions) and related institutional arrangements. In the first section below we weigh the plausibility and evidence of alternative sources of social capital that are mostly linked to the primacy of social interactions. In the following section we examine different institutional accounts for the development of social capital. Our institutional theory of generalized trust is presented in the third section. What follows are two applications of our theory for two different institutional aspects. We conclude with the implications of these theoretical and empirical insights.

2. The Limits of Social Capital Theory

In the literature about the sources of social capital we can distinguish society-centred from institution-centred accounts. The former is related to bottom-up processes of social capital production focusing on civil society and voluntary associations. The latter focuses on top-down processes and on how social capital is embedded in and shaped by political institutions. We will explore these accounts of the sources of social capital production in detail in the remainder of this and in the following sections.

In the society-centred approach, social capital stems from long historical processes in what can be characterized as an organic or 'Durkheimian' way. From a macro-perspective, societies build up long traditions of civic engagement and group life that in turn produce desirable outcomes such as norms of reciprocity and generalized trust (Putnam 1993; Fukuyama 1999). This account implies that in regions and localities with historically strong civic traditions, we find citizens with more generalized trust because first, members who are active in groups learn these values through socialization processes in various group activities; and second, because non-members benefit from the groups externalities or what Putnam has called the 'rainmaker effect' (Putnam 2000). This effect extends to individuals who are not active in voluntary associations because they can benefit from the social capital generated by those who are.

The problem is that this explanation has suffered a number of serious setbacks. The first is conceptual, in that it has proved difficult to find a theoretical distinction between the kind of voluntary organizations that produce generalized trust, that is trust without exclusionary group boundaries, and those that produce the opposite, namely distrust between groups of people, or strong in-group trust only (see Stolle 2002; Uslaner 2002 for a discussion of various types of trust). Many voluntary organizations and networks are actually built to instil distrust in other people in general and of members of other organizations in particular. This does not apply only to obvious cases, as in the case of the Hells Angels who are supposed to distrust members of the Bandidos or fans of one sports team who are not expected to be particularly fond of the passionate supporters of rival teams. Many voluntary associations and groups are of religious, political, ethnic, and gender-based nature and their existence is partially justified on a *logic of separation or division*, i.e. establishing distance bordering on distrust vis-à-vis competing associations, networks, or societal groups. This logic of separation comprises much of the very nature of human organization. Obviously, not all voluntary associations are like the PTA or bird-watching clubs; their *raison d'être* may be preservation of a rigid social status, professional and interest groups closure, ethnic and religious divisions, and outright criminality.

If social capital is about the generation of trust and norms of reciprocity that go beyond a particular group, then involvement in an organization that produces only in-group trust or actual distrust of out-groups must then be noted as a minus item on the social capital balance sheet.[4]

The second problem has to do with the missing micro-theory of social capital. With the writings of Coleman and Putnam, social capital is cast predominantly as a collective phenomenon (see distinctions between individual and collective versions of this theory discussed in Lin 2001). In this light, social capital is part of social relationships, not an attribute of individuals (Coleman 1990), and it is produced by groups, associations, regions, or even countries, and can similarly be enjoyed by those who are not part of the collective. Yet even if collectives are carriers of social capital, we believe that the theory of social capital about the importance of social interactions for norms of reciprocity and generalized trust needs to extend to a micro-logic as well. This requires two things—a theory on how social interactions at the individual level generate social trust, and empirical findings that support such a theory (Hedström and Swedberg 1998, cf. Elster 1989). However, there is no compelling micro-theory of social capital generation. The reason is that it is not clear how the trust that is generated between members of a group or networks can be transferred to the outside world (Stolle 2001). Which aspects of the face-to-face interaction really matter for generalized trust and why? In other words, it has been difficult to establish a plausible micro-link that explains how group experiences can be generalized.[5]

The third problem that the civil society/voluntary association theory on the origin of social capital has encountered is empirical. First, if civic traditions and group life produce generalized values and norms, we should not only find that regions with dense networks of voluntary associations produce more trust and norms of reciprocity that go beyond the group; but at the same time we should see that *individuals* who join groups learn how to trust and cooperate. In other words, we need empirical evidence both at the macro- and micro-levels (Elster 1989; Boudon 1986). Whereas there is some evidence that countries with dense social networks also exhibit more generalized trust (Delhey and Newton 2004), at the individual level, a causal flow from joining to trusting is nowhere to be found. The problem is that the test of a micro-logic of social capital production is made difficult as it requires data over time or rich contextual data at the group level, and the researchers who have been able to work with such data have determined that the causal relationship is shaky at best, and does not exist at worst (Wollebæk and Selle 2002; Whiteley 1999; Uslaner 2002; Stolle 2001; Delhey and Newton 2003; Claibourn and Martin 2000; Herreros 2004; cf. Theiss-Morse and Hibbing 2005; Letki 2004; Armony 2004).[6] For example, one recent large-scale comparative empirical study concludes that, 'perhaps most important and most surprising, none of the four measures of voluntary activity stood up to statistical tests, in spite of the importance attached to them in a large body of writing, from de Tocqueville onwards' (Delhey and Newton 2004: 27). In a recent analysis based on the Afrobarometer survey from ethnically divided countries in West Africa (Ghana and Nigeria), Michelle Kuenzi even finds a negative correlation between membership in associations and social trust (Kuenzi 2004). Uslaner (2002: chapter 5) generally uncovers minimal effects of group membership, calling civic engagement 'moral dead ends'. Moreover, while associational members are often found to be more trusting in Western democracies, Stolle (2001) shows that this is due mostly to processes of self-selection. The point is that 'trusters' become members of voluntary groups disproportionately, whereas 'distrusters' are less likely to join. With increasing involvement in associations over time, group members become more trusting *of each other* but not of outsiders (ibid.). On the contrary, and confirming insights in social psychology, groups may inhibit rather than promote trust in people who are different from one's own group (Uslaner 2002: chapter 5; Schoenfeld 1978).

The net conclusion from the empirical research is that associativeness and social networks may very well be a good thing for many reasons, but they do not seem to produce interpersonal trust and wider norms of reciprocity that benefit the whole society as social capital theory originally implied. As it stands, social capital correlates with a number of other social indicators that most people normatively think are important. However, the central claim about how this asset can be generated in groups or associations is flawed. This calls for an alternative approach to social capital creation, which in its turn will have theoretical as well as policy implications.

3. Alternative Sources?

As a reaction to the plight and thin evidence of society-centred accounts, the *institution-centred* approaches of social capital theory claim that for social capital to flourish, it needs to be embedded in and linked to a special set of formal *political, administrative*, and *legal* institutions (Berman 1997; Levi 1998*a* and 1998*b*; Norén Bretzer 2005; Rose-Ackerman 2004; Kumlin and Rothstein 2005; Rothstein and Stolle 2003*a*; Rothstein 2005; Stolle 2004; Tarrow 1996). According to this group of scholars, the amount of social capital in a society is produced by factors in politics or government and not primarily in the realm of civil society. The question here has become whether social capital is produced by the political sphere, and more specifically public institutions, and if so, how? While the theory launched by James Coleman and applied by Robert Putnam offers mostly a sociological explanation to how social capital is produced and/or diminished, the latter has also stressed the possibility that there may be other explanations. In a recently published volume, Putnam writes that 'the myriad ways in which the state encourages or discourages the formation of social capital have been under-researched' (Putnam and Goss 2002: 17). There are also passages in his study of Italy that point to the importance of political and institutional variables (1993: 159 and 165 ff.). In fact, the vicious circle in southern Italy started for him with the experience of the authoritarian and hierarchical structures of the Norman kingdom (ibid.). However, the main theme in the research on social capital and social trust has been that 'states destroy the social cohesion of traditional communities, undermine cooperation, and destroy trust among individuals' (Levi 1998*b*: 81 f., cf. Herreros 2004: 72), and little attention has been focused on the potentially facilitative character of state institutions for social capital.

However, states can be of diverse natures and they encompass many different institutions. Some things stand out instantly even upon cursory inspection of the data—high social trust is associated with *stable democracy* (Inglehart 1999), low levels of *corruption* (della Porta 2000), and a *low degree of economic inequality* (Uslaner 2002; Rothstein and Uslaner 2005). The central idea in the institutional approach is that government policies and political institutions create, channel, and influence the amount and type of social capital in their respective societies more than the other way around. The capacity of citizens to develop broad-based and out-reaching cooperative ties and establish social trust is in this account heavily influenced by (the effects of) government institutions and policies. This point of view has important policy implications because if correct, it implies that institutional engineering might indeed be used to foster social capital.[7]

We can distinguish two main types of institutional arguments in relation to the concept of social capital: an attitudinal approach and an institutional-structural one. In the attitudinal approach, scholars examine the relationship between people's confidence in political institutions (political trust) and their trust in 'other people' (social or generalized trust). For example, Hall indicates that political trust and generalized trust are correlated in Britain (2002). Kaase discusses the consistently positive but weak correlation between the two types of trust in cross-national survey samples (1999: 14).

However, interpretations of this correlation vary. Some social scientists that recognize the correlation between the two types of trust see generalized trust mostly as a predictor of political trust, in which case social capital becomes a source for institutional outcomes. For example, Lipset and Schneider claim that in the United States, what they call the 'personal characteristic of trust in others' might explain developments in public confidence. 'A general feeling of confidence in institutions seems to derive from a personal outlook of optimism, satisfaction and trust' (1983: 120 ff.). Newton and Norris elaborate this causal flow when they find a strong correlation at the aggregate level in the analysis of the World Value Surveys in seventeen trilateral democracies. They interpret their findings as evidence that social capital 'can help build effective social and political institutions, which can help governments perform effectively, and this in turn encourages confidence in civic institutions' (Newton and Norris 2000; cf. Newton 1999). In this account, social relationships shape the experience of governmental institutions and ultimately their performance. The problem with all of these analyses is that the flow of causality is not clear; this has been noted by a number of authors who explore this relationship in more depth. Brehm and Rahn, for example, have tried to disentangle the causality between these two types of trust through statistical methods. Using GSS survey data from the US, they found that confidence in institutions has a larger effect on interpersonal trust than the other way around, even though they see both types of trust influencing each other (Brehm and Rahn 1997: 1014 ff.).

We see three main related problems with the attitudinal arguments about the relationship between institutions and social capital. First, the fact that attitudes cause other attitudes is not very illuminating. The main problem of the attitudinal approach is that attitudes that relate to institutions are not connected to the actual institutional characteristics. It is unlikely that people evaluate political institutions without taking into account their actual performance or character (Kumlin 2004). Second, there are a variety of forms of institutional trust that we can identify in the study of advanced industrialized democracies, but it is often a problem that most of them are collapsed under one label. We believe that this is the reason why most studies find only weak or no correlations between generalized trust and trust/confidence in political institutions (Newton 1999; Newton and Norris 2000). The problem is that these studies have put the focus on political institutions that according to our theory should have little or nothing to do with generalized trust (we will expand this argument below). The third problem is that the causal mechanism in both causal claims remains unclear. In the causal logic from social trust to confidence in politicians, we do not have a theory about precisely *how* people who trust others, for example, also evaluate their institutions in a more positive light. Often these accounts refer to the logic presented in Putnam's work, in which he claims that horizontal social interactions bring about better performing institutions (1993). Yet even here we do not know *how* trusting people actually creates better service performance and more democratically responsive local politicians (Boix and Posner 1998). Do more trusting citizens contact governmental officials more frequently to pressure them into good performance? Or is it that local politicians just reflect the culture of trust or distrust that prevails in their local societies? How exactly can the trust or distrust of citizens in each other influence governmental performance or stimulate their confidence in politicians?

What is missing is a theory about how the causal mechanisms between the two types of trust operate (Hedström and Swedberg 1998). With causal mechanisms we do not mean the addition of yet another intervening variable, but instead a theory for understanding *why* 'one variable changes another' (Hage and Meeker 1988: 1). Mechanisms address the 'what makes it happen' question that must elucidate our understanding of a statistical correlation between variables (Sayer 1992: 104). What has been lacking in much social capital research is a theoretical focus on how the causal mechanisms operate.

The institutional-structural approach that we present in the remainder of this chapter intends to handle these problems. This approach generally centres on the role of the state as a source of social capital generation. The basic argument is that governments can realize their capacity to generate trust between people if citizens consider the state itself to be trustworthy (Levi 1998*b*: 86). States, for example, enable the establishment of contracts in that they provide information and monitor legislation, and enforce rights and rules that sanction lawbreakers, protect minorities, and actively support the integration and participation of citizens (Levi 1998*b*: 85 ff.). This discussion is very useful insofar as it specifies institutional characteristics such as the efficiency and trustworthiness of state institutions as influential for social capital creation. Yet what is ultimately still missing is a specification of how the causal mechanism between institutional arrangements and trustworthy behaviour works.

To sum up, so far we have found strong differences between countries' generalized trust levels, but no credible theory that can explain this variation at the aggregate levels and transport the theoretical knowledge into a plausible micro-theory of how social capital is generated (or destroyed). Neither the society-centred, bottom-up approach, nor a more politically oriented top-down approach seems to generate plausible explanations for the huge variation in social capital among countries. This situation is of course problematic for the whole social capital research agenda. It is as if social capital just existed and was generated in a vacuum with no causal connection to other social or political phenomena. However, we believe that the weak findings of causal relationships between social capital and 'trust in government' are mostly due to a failure to disaggregate the concept of 'government'. Below we outline a model that indicates (*a*) which political institutions are the most important for generating social capital and (*b*) how to understand the causal mechanism between these institutions' characteristics and generalized trust. The reasons for such better specifications are simple. The number of political institutions in any political system, democratic or not, is huge; moreover, the ways in which these can be combined into different institutional systems is infinite (Rothstein 1996). This implies that we need to specify if it is the electoral, the judicial, the military, the administrative, or any other political institutions that may be particularly important for generating social capital.

4. An Institutional Theory of Social Capital Creation

As stated above, the central problem in the institutional approach so far is that many forms of institutional trust and confidence are collapsed under one label as 'trust in government'. This problem is related to the fact that citizens interact with government institutions both as citizens/voters and as citizens/clients. In the former role, citizens are active in or vote for political parties, become engaged in interest groups, and in other ways participate in the 'aggregation of preferences' in order to influence public policy. This is the collectivist or 'popular will' side of the democratic politics. In their role as citizens/clients, people stand as individual receivers of public policy. They may, for example, receive public pensions and other forms of social insurances (or not). They may also obtain public health care, their children may attend public schools, and they may have various types of interaction with civil servants such as the tax authorities, teachers, the police, and so forth. We can thus differentiate between citizens' confidence in the institutions on the representational side of the political system (parties, parliaments, cabinets, etc.) and confidence in the institutions on the implementation side of the political system. The theoretical reason for the distinction between two types of political institutions is the following: on the representational side, one of the main roles for political institutions is to be partisan; confidence here is created through partisanship. A political party that holds government power, or the majority in a parliament, is supposed to try to implement its ideology in a partisan way. Thus, people who support the ideology of the ruling party (or parties) are likely to have confidence in them, while citizens who oppose their ideology are likely to report a lack of confidence (Citrin 1974; Holmberg 1999). However, it is less likely that this type of political trust (or distrust) that is connected to political leanings should influence one's generalized trust in other people. There is to our knowledge no plausible causal mechanism linking these two phenomena. If person A trusts (or distrusts) the ruling party because of her political leanings, there is no reason why this should make a difference for her trust in other people in general in her society. This is why we usually find a strong correlation between political partisanship and political trust, but a weak correlation between confidence in these types of political institutions and social trust (Newton 1999; Newton and Norris 2000).

Instead, we argue that the institutions on the implementation side of the political system are more important for the creation, nurturing, and maintenance of generalized trust. First of all, these institutions reveal messages about societies' overall principles and norms, which in turn mould and shape people's beliefs and values about how the institutions operate. These messages vary in the degree to which these institutions represent the normative ideals of *impartiality*, *equality before the law*, *respect for human rights, equality of opportunity* and (a reasonable degree of) *efficiency.* Our argument is that if such ideals are guiding the operative procedures of the implementing institutions, citizens will have reason to trust them. For example, they may trust them with their demands for protection from crime, the need for health care, and other essential services.

Another reason is that the implementing political institutions reveal messages not only about their own principles and norms but also about 'people in general' in their society. The logic of this argument runs as follows: if the implementing institutions act according to the above-mentioned principles of fairness, there is reason to believe that most people in society 'play by the rules' and therefore they can be trusted. The reverse is of course then also the case: if the administrative and legal institutions systematically act so that the principles of impartiality etc. are violated, most citizens will not (or cannot) 'play by the rules' and should thus not be trusted. According to this theory, this causal logic is determined by three mechanisms. First, if citizens systematically experience partial (discriminatory, corrupt, etc.) behaviour from street-level bureaucrats, they are likely to conclude that if these people cannot be trusted, then nor can one trust 'most other people' in the society. The inference from the local police, the teacher, doctor, or other guardians of public institutions serves as an indicator for the general moral standard of the society one lives in, which, in its turn, influences the belief that 'most other people' in that society can be trusted or not. Second, the existence of impartial (and reasonably effective) legal and administrative institutions makes one less likely to believe that most other citizens engage in illegal behaviour such as getting special benefits or access to governmental goodies in what is perceived as an unfair way. The third causal logic is that if the legal and administrative institutions are generally seen as unfair, or engaged in practices such as patronage, discrimination, and clientelism, the individual will feel compelled to engage in such practices in order to get what she deems necessary in life. The likely inference from this is that since the 'system' makes it necessary for A to act in an untrustworthy manner, A is likely to believe that the rest of society behaves similarly and should therefore not be trusted. It should be underlined that acting in a fair and impartial manner is very different from—in fact the opposite of—acting as an agent of someone or acting on behalf of someone (cf. Hardin 2002). In these cases, a government institution that simply acts in the interest of person A and as A's agent, no matter what, is one that A has bribed (or perhaps one that is run by A's cousin). And if A can bribe judges or civil servants in general, so can someone else, including A's adversaries. The principle of impartiality and fairness of administrative agencies is, above all, a very strong principle against corruption[8] and discrimination, but works also against the idea that government institutions should act as agents for 'special interests'.

In sum, we argue that there are at least two dimensions along which citizens might judge political institutions: on the one hand, they expect representatives of political institutions to function as their agents; on the other hand, they judge policy institutions according to their neutrality, fairness, and impartiality. Moreover, citizens expect more agency and more political bias from political institutions with elected offices, whereas they expect impartiality and an unbiased approach from order institutions. Our claim is, of course, that the lack of impartiality of public policy institutions damages generalized trust; and alternatively, institutions' perceived impartiality should support generalized trust. Before we turn to these causal links and the underlying causal mechanisms, we examine the distinctions that citizens draw between various institutions. Can we actually find the difference between trust in political institutions that are perhaps seen as partisan, and trust in institutions that implement public policy for which citizens should demand more fairness and impartiality?

Table 10.1. Confidence in various institutions: rotated component matrix

	Factor 1 Political/biased institutions	Factor 2 Neutral and order institutions	Factor 3 Power checking institutions
Confidence in parliament	**0.829**	0.184	0.079
Confidence in political parties	**0.782**	0.036	0.150
Confidence in government	**0.740**	0.267	0.088
Confidence in civil service	**0.576**	0.282	0.172
Confidence in the army	0.060	**0.796**	0.060
Confidence in the police	0.258	**0.694**	0.056
Confidence in legal institutions	0.282	**0.639**	0.241
Confidence in the press	0.153	0.118	**0.887**
Confidence in TV	0.149	0.131	**0.878**
Explained Variance (Rotation sums of squared loadings)	26%	19%	19%

Notes: Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

Source: WVS Wave 3, Number of countries = 56, Number of included respondents: 64,997.

In order to test whether trust in various political institutions actually does fall onto different dimensions, we subject the individual-level third wave of the World Values Survey to a factor analysis.[9] As the results in Table 10.1 indicate, citizens from fifty-six countries make distinctions between types of confidence in institutions in a list of nine different types. The factor analysis (principal component, with varimax rotation) reveals that three different dimensions of institutions emerge.[10] Indeed most political institutions with elected offices fall under the first dimension, such as confidence for parliaments, governments, political parties, and—perhaps surprisingly—the civil service. In many countries, it may be that the high-level civil service is seen as partisan and as an extension of elected governmental offices, and indeed in various countries high-level civil servants are often politicized (Halligan 2003). The second dimension reflects the group of public or order institutions that are expected to function with less political bias and in an impartial manner, even though the actual experiences in authoritarian systems, for example, or even in various types of democracies are sometimes very different. Trust in the army, in legal institutions, and in the police falls under this dimension. A third dimension taps confidence in institutions that are mostly control institutions that check the power of institutions with elected offices, and include the media (see Table 10.1). Elsewhere we have shown that the same holds when several welfare state institutions are included in the question battery (Rothstein and Stolle 2003*a*). In Swedish data, for example, trust in the health system, and trust in schools fall together on the same dimension as trust in the police, defence, and the legal system. In other words, citizens *do* make distinctions between government institutions in the way our theory predicts, particularly as political institutions are distinguished from those that help to keep law and order or provide public services.

From this point of departure we propose that the major source of variations in generalized trust is to be found on what we like to call the implementation side of the political system, namely exactly those legal and administrative branches of the state such as the police, the courts, and other government organizations responsible for implementing public policies. Empirically this relationship can be shown as well, the factor dimension of political trust in partisan institutions is indeed not at all related to generalized trust in the World Values Survey; whereas we observe a strong positive correlation (r=.51) between trust in what we can call order institutions and generalized trust at the aggregate level (see Rothstein and Stolle 2002).[11]

This argument about the importance of fairness and impartiality of administrative and legal institutions also enjoys strong empirical support in research conducted by psychologist Tom Tyler on why people accept the principle of compliance with the law. When citizens had reasons to believe that the procedures applied by officials in the implementation of laws were fair, they were most acceptant of the legal decisions. Procedural fairness was a more important factor than the risk of being caught and punished or the general moral norm that people should obey democratically passed laws, and even trumped an individual's belief that the outcome of the case has been in his or her favour or not (Tyler 1992, 1998).

At this point, our research emphasizes the causal relationship between perceptions of selected political institutions, resulting institutional trust, and generalized trust. Below we will show that the institutional perceptions seem to be grounded in actual measurable institutional characteristics, yet future research needs to further explore whether sole perceptions or actual institutional differences are driving forces in the shaping of citizens' generalized trust for each other. In the remainder of this chapter, our argument for the importance of political institutions will be illustrated by two empirical examples. The first shows the negative causal connection between corruption (or the lack of impartiality) and social capital. Our second argument emphasizes that the principle of universality in public policies is more prone to generate trust in society than other forms of distributional justice. These two arguments can be seen as two sides of the same coin since they both allude to the importance of fair and impartial political institutions for the generation or destruction of social capital.

5. Corrupt Institutions and Social Capital

One form of break with the norm of impartiality is corruption (Kurer 2005). How then would corrupt and unfair practices in the administrative machinery of the state influence people's propensity to trust others in their society? According to our argument, a deteriorating, biased, corrupt administrative system generally goes hand in hand with low levels of social capital, particularly when measured as generalized trust. The presence or lack of corruption is a crucial feature of government institutions, especially of order institutions that we highlight in the *institutional theory of trust*. The reasoning is as follows. Institutions of law and order have one particularly important task: to detect and punish people who are 'traitors', that is, those who break contracts, engage in bribery and clientelistic operations, cheat, steal, murder and act in other obviously non-cooperative ways and therefore should not be trusted (see also Levi 1998*b*). Thus, if citizens think that the legal institutions of the state do what they are supposed to do in a *fair* and *effective* manner then they also have reason to believe that the chance of people getting away with such treacherous behaviour is small. If so, citizens believe that people have good reason to refrain from acting in a treacherous manner and because of this, they will believe that 'most people can be trusted' in their society. However, we wish to emphasize that it is not just the efficiency with which treacherous behaviour is punished that matters for generalized trust, but the combination of *efficiency and fairness of order institutions*.[12] This is where the causal mechanisms we propose kick in: with corrupt practices in judicial, police, and other order institutions, citizens make inferences from such practices to other citizens; they will conclude that corruption causes their fellow citizens to act in a corrupt manner, and they will feel obliged themselves to engage in corrupt practices. In sum, if citizens cannot trust the institutional effectiveness and fairness of the judicial system and the police because of corruption, then their generalized trust in others is weakened; conversely, fair and impartial practices facilitate such trust.

As an illustration of this causal logic, consider a report written by the United Nations Development Programme (UNDP) on the situation in Bosnia Herzegovina. The UNDP reports the results of a survey that shows that between 60 and 70 per cent of respondents in Bosnia believe that corruption exists in the health care system, justice system, and the media. Slightly more than half believe corruption also exists in the various UN bodies working within the region. The report concludes:

> For the average citizen, therefore, it seems that corruption has broken down all barriers and dictates the rules of life. That is not very different from saying that *they interpret life in terms of corruption*. As long as bureaucratic practice remains unreformed and there is a lack of transparency and accountability in public business, this will continue to be the case. People will use whatever mechanism they think will bring them an advantage and those in office will take advantage of that in their turn.
>
> (UNDP 2002: 17, emphasis added)

The point is that people who, because of rampant corruption, 'interpret life in terms of corruption' are not only likely to mistrust public authorities; they are also unlikely to trust other people in general. As long as people believe that those in power will take unfair advantage of them by corrupt means, they will reciprocate by using 'whatever mechanism they think will bring them an advantage' and social mistrust will therefore likewise become rampant.

There is significant evidence that corruption is at least related to low social capital across the world, at the aggregate and individual levels. Uslaner finds that, particularly at the extremes, there is a strong correlation: countries with high levels of generalized trust have correspondingly low levels of corruption (especially in Scandinavia), whereas countries with high levels of distrust also show high levels of corruption (2002). At the individual level, Seligson shows not only that the experience of corruption significantly erodes the legitimacy of the political system, but, in addition, significantly reduces generalized trust (see Seligson 2002: 428 ff.).

Not only should citizens who experience widespread institutional corruption be less trusting than others, but also, unreliable police, arbitrariness, and bias of courts, as well as discrimination by police and courts should have their effects on institutional as well as generalized trust. Such relationships are hard to demonstrate, but let us discuss an example here. One important behavioural expression of institutional trust is the reporting of crime (see Malone 2004). If citizens experience crime, but do not bother to report it to the police or courts, for example, this means that citizens do not trust the police with the task of protection and safety. In our research we found high correlations between reporting crime or corruption and institutional trust, which indicates that reporting to the police is not fashionable in countries where institutional trust is low (Rothstein and Stolle 2002). This sets into motion the causal mechanisms we proposed: either citizens feel unprotected, and therefore distrusting of other fellow-citizens, or they experience institutional corruption and infer that elites and other citizens are biased and out for their own good, which also makes them distrustful of others. In countries where only up to 50 per cent of those experiencing any kind of crime report to the police, about 23 per cent have generalized trust in others. In countries where the police report percentage (and therefore police trust) is above 50 per cent, citizens trust others an average of 39 per cent (difference significant at the $p = .003$ level).

In follow-up research we show not only that citizens' perceptions of corruption in order institutions matter, but also that actual variances in institutional characteristics are related to the spread of generalized trust across countries (Rothstein and Stolle 2005). Countries with efficient institutions that are also impartial (with less corruption) have significantly more trust than countries with less efficient institutions. Ideally, we should be able to demonstrate that changes in institutional structures are also followed by changes in generalized trust; this will be the objective of a future study. For now we can conclude that institutional experiences of impartiality, lack of corruption, and effectiveness are strongly linked with generalized trust.

6. Universal Institutions and Social Capital

In the second illustration of our argument we concentrate on the arena of the welfare state as an important example of citizens' experiences of implementing institutions. A central question in all social policy programmes is how the encounters between citizens and the welfare state institution are designed so that the principle of procedural justice can be maintained and the suspicion of discrimination and cheating can be avoided. We take as our starting point the distinction between *selective* and *universal* forms of public service (Rothstein 1998; Kumlin and Rothstein 2005; Rothstein and Stolle 2003*a*). Selective public service or means-tested targeted programmes are provided to individuals only after an individual 'passes testing'. Citizens must meet a number of more or less specific conditions to qualify for a benefit or service. These conditions may be of an economic nature, as in the case of social assistance and housing allowances. Such conditions may also be related to the individual's health or ability to care for herself (in order to qualify for a disability pension, various types of eldercare, or various kinds of active labour market measures).

The problem with needs testing from the perspective of procedural justice is that it places great demands on both public employees, as well as on citizens seeking assistance. The public employee must actively interpret a general body of regulations and apply them to each individual seeking to qualify for a public service. The difficulty is that the regulations are seldom so exact that they provide completely unambiguous direction as to what is the right decision in an individual case. As Michael Lipsky (1980) shows in *Street-Level Bureaucracy*, 'grassroots bureaucrats' must develop their own practice in interpreting the regulations in order to deal with this difficulty. This interpretative practice is frequently informal and less explicit in nature and, consequently, the bureaucracies applying the needs tests are easily suspected of using '*prejudice, stereotype, and ignorance as a basis for determination*' (Lipsky 1980: 69). In other words, programmes based on needs testing imply a great scope for bureaucratic discretion.

The consequences are that the bureaucratic power is easily abused, and that fraud on the part of clients is easily committed. For example, applicants in a selective system, if rational, will claim that their situation is worse than it actually is and might be more pessimistic about a self-reliant solution to the problem. The administrators in such a system often have incentives from their superiors to be suspicious of clients' claims. As a consequence, even if cases of cheating, fraud, and the abuse of power are in fact relatively rare, the sensationalistic logic of mass media ensures that such cases will receive great attention, thereby influencing the population at large.

The citizen, for her part, has an incentive and opportunity in this situation to withhold relevant information from the bureaucrat and to try in various ways to convince the latter that she should qualify for the service in question. This easily escalates into a vicious spiral of distrust from the client leading to increasing control from the bureaucrat (who, moreover, is equipped with a large scope of discretion) that in its turn results in still more distrust from the client, and so on. On top of that, citizens who are clients of means-testing selective administrative institutions are less likely to see the process as fair and transparent; on the contrary, there is often an understanding that the system discriminates against them. This experience will induce the causal logic we discussed.

In addition, selective programmes have a divisive character. In their essence, welfare states that are predominantly based on such programmes are designed to pit groups of the population against each other. This is the case because in welfare states with mostly selective programmes the 'needy' or 'the others' are singled out, questioned, and possibly blamed for their situation. In the selective model, the discussion often focuses on how to separate the 'deserving' from the 'undeserving' poor, which translates into a seemingly unending debate about how and where to draw boundaries. Leading politicians are therefore likely to find themselves in a situation where it becomes increasingly difficult to argue that the selective programmes are fair. Public consent to the system is undermined because the social policy debate comes to turn not on what is *generally fair*, but rather on what is *specifically necessary for 'the others'*. In fact, citizens who pay for services that are targeted at selected groups of the population with whom they believe not to have many similarities might also feel unfairly treated (Hetherington 2004). Friction is created between those who are in need of governmental services and those who are not. Obviously, this friction might coincide with pre-existing divisions such as race and immigrant status in selective welfare states (Rothstein 1998; Soroka, Banting, and Johnston 2006).

Because of these complex and controversial decision-making processes, needs testing and bureaucratic discretionary power are often more difficult to reconcile with principles of procedural justice, compared to universal public services. Since selective welfare institutions must test each case individually, they are to a greater extent subject to the suspicion of cheating, arbitrariness, and discrimination, compared to universal public agencies. Alternatively, universal programmes are not characterized by these problems. The principle of universality means that access to many social programmes (such as old-age pensions, health care, childcare, child allowances, and health insurance) is not targeted to 'the poor', but instead covers the entire population (or easily defined segments) without consideration of their ability to pay for themselves (Esping-Andersen 1990; Rothstein 1998).

Thus, in a universal welfare scheme there is no need to leave room for bureaucratic discretion as all citizens are treated equally. Our argument is that the universal system has an undivisive, encompassing, and inclusive character. There is no need for discussions about who are the 'needy' or the 'undeserving', and there is also no need to single out certain groups of the population who might need more or less, because everyone is considered entitled. Certainly, universal welfare states are not completely free of any form of stratification, as many scholars on gender and the welfare state have demonstrated (Sainsbury 1999; Hobson 2000). Yet the focus on overall inclusiveness functions as an important factor in the development and maintenance of generalized trust. Moreover, universal welfare programmes are much easier to administer and enable fewer opportunities to cheat the system. Programs such as flat-rate pensions, universal health care, or child allowances, are a great deal simpler, cheaper, and easier to implement than its selective counterparts. This is largely due to the fact that in a universal-type programme there is no need for an administrative apparatus to undertake any kind of eligibility testing, which is a necessary concomitant of a selective programme and, to a degree, in programmes of a conservative welfare state. If everyone is entitled to have the same or a proportional share, there is hardly any possibility for welfare fraud (Rothstein 1998).

What empirical evidence can be assembled to confirm these insights? As a first point, countries with universal welfare states obviously show the highest levels of generalized trust at the aggregate (Rothstein and Stolle 2003*a*, 2003*b*). Furthermore, countries with universal welfare states also show high levels of income equality (Korpi and Palme 1998), and the Gini index is negatively related with generalized trust, confirming that high levels of equality and trust go together (Rothstein and Uslaner 2005). There exists evidence of a relationship at the micro-level as well. Even a universal welfare state like Sweden does have a few means-tested programmes (e.g. social assistance and housing allowances). However, survey analyses show that citizens who have been in contact with means-tested institutions in Sweden as well as in the United States are less trusting of others than citizens who use solely universal welfare services (Rothstein and Stolle 2003*a*; Kumlin and Rothstein 2005; Rothstein and Uslaner 2005).

7. Conclusion: Towards an Institutional Theory of Social Capital

Social capital may well be one of the most important conceptual innovations that have appeared in the social sciences during the last decades. The enormous increase in research on social capital since the mid-1990s shows that, as a concept, it has spurred the imagination and curiosity of large parts of the international social science community. For us, the starting point is that we believe that social capital is 'for real', meaning that it is a very important asset for societies, organizations, as well as for individuals. The problems that we addressed in this chapter are the conceptual and empirical difficulties that the theory has encountered when it comes to the central question of how social capital is generated. Put simply, activity in voluntary associations doesn't produce social capital. The Tocquevillian concept is not supported by evidence. There are, ultimately, two ways of dealing with the dilemma raised by this lack of support. One is to dismiss the whole idea of social capital. For various reasons, we think this is the wrong approach. First, the wealth of empirical evidence shows that generalized trust in particular 'goes together' with so many consequences that are important for most people, regions, and nations. Second, social capital seems to be a concept that can handle one of the most difficult theoretical challenges in the social sciences, namely how to explain variation in successful cooperation among rational agents.

In this chapter, we have tried to present an alternative theory of how social capital is generated. Our argument is that social capital will flourish in societies in which people find that the administrative and legal institutions meet a number of ethical norms such as impartiality, equality before the law, lack of discrimination and (a reasonable amount of) efficiency. In other words, social capital rests on the *quality of government institutions*. This institutional theory of social capital is based on a theoretical and empirical examination of the causal mechanisms between trustworthy administrative and legal institutions and social trust. We have specified these mechanisms and we presented two empirical illustrations for arenas in which they work; in one, corruption plays the central role as an important characteristic of order institutions; the other shows that the design of social welfare institutions is an important aspect as well.

The empirical evidence that we reviewed or assembled gives evidence that these causal mechanisms are at work. The institutional theory of social capital creation works at both the micro- and macro-levels, using a variety of specifications of institutional characteristics and institutional trust, as well as by using a wide variety of data sources and analysis techniques. Citizens make distinctions between various types of institutions; moreover, trust in order and implementation institutions is more important for generalized trust than other types of institutional confidence. Citizens do make strong connections between the impartiality of institutions and generalized trust at the micro- and macro-levels. We have seen some specific examples of this when distinguishing corrupt from fair and unbiased institutions, as well as means-tested from universal welfare institutions. Citizens develop different levels of generalized trust dependent on their institutional experiences with these various institutional characteristics. In short, in countries with predominantly corrupt and means-tested institutions we find less generalized trust than in countries with impartial, fair, and universal institutions. Furthermore, citizens who have experienced corruption and who have been in contact with means-tested programmes are less trusting than citizens who did not.

In this chapter, we have criticized the society-centred 'bottom-up' approach to social capital and presented an alternative, which we have labelled the institutional approach. We want to end this discussion by pointing out that this is not only a question for internal academic disputes. Since its inception, social capital research has been closely related to public policy. In several countries, politicians, governments, and government agencies in different fields have referred to the social capital theory when arguing for policy changes (Canberra Times 2001; Business Times Singapore 2001; Policy Research Initiative 2005). In addition, some important international organizations have become interested and also made use of social capital research, most notably the World Bank (Bebbington et al. 2004). In this context there is evidence that the society-centred approach may lead to the policy prescriptions that governments should increase their support of voluntary associations and that the implementation of public services should be transferred to voluntary associations (Theiss-Morse and Hibbing 2005). Moreover, it seems likely that the political discourse in this context turns to governments blaming the people for the various ills in society by arguing that ordinary citizens have not been 'involved' enough in various associations. Examples of this are the report from the Swedish government investigation on the status of the Swedish democracy presented in 2000 (SOU 2000: 1), and the report from the Irish Government's

National Economic and Social Forum presented in 2003 titled 'The Policy Implications of Social Capital'.

However, if the institutional theory proves to be correct, policy prescriptions are likely to look very different. Measures against corruption and other dysfunctions in the administrative and legal institutions would be high on the agenda (cf. Kaufmann, Kraay, and Mastruzzi 2004). Welfare policies that do not single out 'the poor' but instead operate based on universal principles would be central. The political discourse is likely to be centred on the issue of government's responsibility for faulty institutions.

Notes

1. We understand social capital to consist of a quantitative and qualitative dimension. The former encompasses networks/contacts. That these can be an asset should be obvious from the fact that most people get what they need in life (e.g. information about jobs and other valuable things) through their networks and contacts. However, we believe that social trust is the most essential part of social capital, simply because it cannot be an asset to be known by other people as an untrustworthy person, or to have a lot of contacts with people whom you cannot trust. Social capital can thus be defined as the quantity of social contacts multiplied by the qualitative degree of trust in these contacts. For a more extensive discussion see Rothstein and Stolle 2003*b*; Rothstein 2005: chapter 3 and Stolle 2003.
2. Following Piotr Sztompka (1998: 20), we define social trust as 'a bet on the future contingent action of others'. In this case, 'others' refer to people in general in the society where you live. Social trust is different from mere predictions based on utility because it has a normative ingredient. This is obvious from the following: while you may predict that someone will betray you, it makes no sense to say that you trust that someone will do you harm. We agree with Uslaner (2002) that social (or generalized trust) is different from particularized trust (i.e. trust in people who you know very well and feel close to). Social trust is also different from the instrumental calculating type of trust, which is based on A's perception that it is in B's own self-interest to behave in a trustworthy manner towards A (Hardin 2002). When people answer the standard survey question about social trust, it can be understood as an expression of how they evaluate the overall moral standard or atmosphere in the society in which they live (Delhey and Newton 2004).
3. Source: World Value Surveys: <http://wvs.isr.umich.edu/>
4. There are attempts under way to solve this problem through organizational typologies. Most famously, Putnam makes the distinction between horizontal

and hierarchical groups, explaining that only horizontal interactions could truly lead to norms of reciprocity and trust (1993: 173). Yet the level of hierarchy seems to be a reflection of values in the larger society and is not just an attribute of a particular group so that the operationalization of this way of categorizing has been difficult. For example, whereas the Catholic Church is excluded as a source of social capital in Italy, in the US it becomes one of the most important sources. Similarly, it is not clear how we can distinguish between bird-watching and soccer groups in horizontal versus hierarchical societies whose social structures are reflected in such voluntary groups (Molenaers 2003). Recently, socialization processes have been distinguished based on whether the group is constituted of members who are alike (bonding groups) or whether it brings together people from diverse and different backgrounds (bridging) (see here Putnam 2000; Warren 1999). In this view, Weimar Germany was plagued by an abundance of groups that separated people from each other, e.g. through social-democratic gardening clubs and Catholic gardening clubs (Armony 2004). Similarly, Ashutosh Varshney explains how cities in which Muslims and Hindus interact in bridging informal ways have significantly fewer problems with ethnic violence than cities with predominantly bonding social networks (2003). Yet again it is not clear that this typological distinction is useful without also taking into account the prevailing political landscape and the character of the political institutions which may render certain types of bonding or hierarchical organizations threatening to the overall social cohesion in some societies but no others.

5. Several scenarios are possible. For example, experiences of group identity-based trust (such as in associations) might accumulate to higher and higher levels, culminating in a different type of trust that appears to be more generalized. However, insights from social psychology suggest that the strength of in-groups usually prevents the building of an overarching identity and affection for out-groups (see e.g. Bobo 1988; Brewer 1981; Gaertner et al. 1996; Tajfel and Turner 1979). Perhaps if strong in-group trust and cooperation is experienced with a *broad* sampling of members of society (bridging contacts), then stereotypes are being diminished and positive feelings can be directly transferred to the outside world. For example, the close cooperation and in-group trust that develops in an association with a relatively high proportion of immigrants might be transferable to the group of immigrants in the outside world. The more identity categories overlap in the positive cooperation experience, the easier the transfer of trust to society at large (see more in Stolle 2002). The question is whether voluntary associations and similar groups offer enough diversity for such experiences to take place.
6. See a summary of these arguments in Stolle 2003 and Theiss-Morse and Hibbing 2005.
7. True, there are also elements in some versions of the society-centred approach that lend themselves to institutional engineering. For example, if certain types of groups turn out to be beneficial for the creation of generalized norms and

values, governments could legislate financial support for the founding of such groups, or could provide meeting space for associations more broadly. Moreover, Putnam has looked at the progressive era for ways to revitalize American democracy and pointed to the role of social activists (2000).

8. We apply here a broad definition of corruption, including such practices as nepotism, clientelism, patronage, and discrimination on ethnic, racial, or other such grounds.
9. The third wave WVS contains the most complete battery of questions about confidence in a variety of institutions.
10. The results are confirmed in the WVS aggregate data set.
11. However, causal relationships cannot be just tested in a cross-sectional way. Surely the development of our causal mechanism ensures a causal logic that underlies our empirical analysis, yet if institutions are in any way responsible for social capital in the form of generalized trust, then we ought to see a connection longitudinally as well. In other words, if institutions become more biased or less impartial over time, we would expect a negative effect on generalized trust. Similarly, if institutions become fair and impartial we would expect a positive effect. There is not much longitudinal data that contain these indicators; however, a preliminary look at the World Values survey suggests that there *is* a relationship longitudinally as well. When comparing positive and negative trends in trust in two important order institutions, the police and legal institutions between the three waves of the WVS it was found that the extreme loss of institutional trust in order institutions was also accompanied by loss in generalized trust. Generally, countries with a loss of 10 per cent in order institutional trust in this period had on average a 6 per cent loss in generalized trust. A positive or stable trend did not lead to significant positive changes in generalized trust (authors' calculations). These results hint at the idea that negative institutional trends will be noticed in generalized trust, whereas it is an open question as to whether positive trends have an equally positive effect.
12. Efficiency of institutions alone can lead to feelings of relative safety or protection from arbitrary crime committed by fellow citizens, as the low crime rates in former communist countries of Eastern Europe indicate; however, they cannot create generalized trust because of their lack of fairness and impartiality.

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CHAPTER 11

INTEREST GROUPS, SOCIAL CAPITAL, AND DEMOCRATIC POLITICS

WILLIAM A. MALONEY

1. Introduction

Interest groups are seen as an essential element of any democratic system with freedom of association being one of the defining characteristics. Groups are perceived as crucial vehicles for extending citizen participation beyond the *occasional vote*. Involvement that was limited to the electoral arena may not provide the nourishing participatory diet sought by many citizens—group affiliation constitutes an important part of a balanced participatory regime. Thomas Jefferson recognized the democratic contribution of groups: 'Where every man is . . . participator in the government of affairs, not merely at an election one day in the year but every day . . . he will let the heart be torn out of his body sooner than his power be wrested from him by a Caesar or a Bonapart' (quoted in O'Connell 1999: 8). Groups are perceived as so integral to democratic systems (see below) that governments (financially) support a wide and diverse range of associations. In fact, in some instances they have proven to be the most important patron providing seed money for new organizations, or crucial maintenance funds for existing groups. For example, Edwards and Hulme (1996) demonstrated that the percentage of total aid from OECD countries to NGOs 'rose from 0.7 per cent in 1975 to 3.6 per cent in 1985 to 5.0 per cent in 1994' (quoted Paxton 2002: 255).[1]

Social capital and interest group perspectives rate the democratic contribution of groups as immense—the more vibrant, dense, and diverse the organizational universe, the greater the democratic benefit. Groups are perceived as generators of social capital that lubricates the 'proper' functioning of democracies—engendering social and political trust, respect, tolerance, reciprocity, civic, and democratic values etc.—particularly important in the current climate of an *alleged* 'crisis of participation' (e.g. increasing political distrust and low and/or falling electoral turnout). Van Deth (1997: 11) cites some key findings from the seminal works—*Civic Culture* (Almond and Verba 1963) and *Participation in America* (Verba and Nie 1972)—which demonstrated the Tocquevillian benefits of associationalism. Group members exhibited 'higher levels of political sophistication, social trust, political participation and subjective civic competence than people not involved in associations'. Participation generates other (positive) *spillover effects*—e.g. civic involvement stimulates political participation because it broadens citizens' interests, increases the saliency of political matters and individuals develop skills transferable to political arenas. Rosenstone and Hansen (1993: 84) provide some statistical support for the social-political correlation, 'Involvement in associations promotes political activism. In fact, no variable in our cross-sectional analysis has a larger impact on the probability that people will participate.'

It is also worth noting that while democratic systems provide a conducive environment for groups (*Making Democracy Work*)—anti-democratic organizations may also flourish. Social capital is not a ubiquitously beneficial resource—it has a *dark side* (see Mark Warren's chapter in this volume). While it can facilitate the mobilization of disadvantaged groups, equally it can enhance the mobilization capacities of neo-fascist or racist groups. Conversely, non-democratic environments are not always successful in suppressing the growth of *anti-system* associationalism. As Paxton (2002: 257) argues, social capital can impact on democracy in two main ways. It can facilitate the creation of democracy in non-democratic countries by reducing 'the ability of the state to directly oppress citizens and provid(ing) a space for growth in organized opposition'. It can also promote the smooth functioning of existing democracies as 'associations teach tolerance, promote compromise, stimulate political participation, and train leaders'.

Groups also act as political linkage conduits to elites—transmitting citizens values, attitudes, and expectations—and counterbalance the tyranny of government; enhance social and political integration; increase political legitimacy; contribute to the policy-making process—providing authoritative information, placing issues on, or pushing them up, the political agenda; monitoring policy areas and implementation processes etc.; and participatory vehicles—most citizens seeking to defend or advance a cause look for a relevant group as an effective transmission belt. As Nagel (1987: 3–4) argues, 'While spontaneous popular action warms the heart of any good democrat, a moment's reflection shows that the people initiate little of what we normally call participation ... Acts of participation are stimulated by elites—if not by government, then parties, interest groups, agitators, and organizers' (cited in Rosenstone and Hansen 1993: 10). Similarly, Crenson and Ginsberg (2002: 182) argue that ordinary citizens normally only make 'fleeting appearances on the political stage. They generally require assistance from groups.'

However, groups are seen as doing much more than providing demand-side solutions—aggregating pre-existing voiceless concerns. More importantly, they are supply-side *manufacturers* of concerns and interests. Rosenblum (1998) maintains that 'association precedes voice': voice is stimulated and manipulated by groups. Shaiko (1999: p. X) quotes Key's (1966: 2) conception of the relationship between political candidates and the US electorate:

> The voice of the people is but an echo. The output of an echo chamber bears an inevitable and invariable relationship to the input. As candidates and parties clamour for attention and vie for popular support, the people's verdict can be no more than a selective reflection from among the alternatives and outlooks presented to them.

Shaiko (1999: p. X) argues that a similar relationship exists between leaders and (potential) members of (public) interest groups in recruitment, retention, and mobilization. The notion that groups generate concerns has become increasingly important following the advocacy explosion that began in the 1960s and the corollary emergence of staff-dominated or *protest business*-type organizations (Jordan and Maloney 1997*a*). The structure and modus operandi of many of these 'new' groups have important implications for the interest group system and the generation of social capital (see below).

2. Assessing the Group Contribution

Rousseau stated that:

> All political societies are composed of other, smaller societies or different types, each of which has its interest and maxims . . . The will of these particular societies always has two relations: for the members of the association, it is a general will; for the large society, it is a private will, which is very often found to be upright in the first respect and vicious in the latter. (Quoted in Dahl 1996: 343.)

Madison ([1787] 2003: 71), on his part, famously noted the 'mischiefs of faction'[2] and saw the latent cause as 'sown in the nature of man'. He argued that there were two cures for such mischief. First, prohibit formation—Madison discounted this as worse than the disease. Tocqueville ([1848] 1966: 190–1; 524) also warned of the dangers of *unlimited* freedom of association and argued that, at times, it may be prudent to restrict it. However, he did not advocate 'strict limits to the rights of association'; like Madison, Tocqueville believed the price was too high: 'To save a man's life, I can understand cutting off his arm. But I don't want anyone to tell me that he will be as dexterous without it'. Accordingly, (for Madison) the only solution was to limit the pathology through the constitutional guarantee of freedom of association. This would engender a pluralistic fighting *fire with fire* model: i.e. a competitive struggle between a large and diverse number of associations that would act as a barrier to the tyranny of the minority. As Crenson and Ginsberg (2002: 106) noted, over time 'Madison's remedy came to be regarded as a virtue in its own right. Competition among interest groups seemed to be the functional equivalent of party competition.'

Competition was embraced by pluralist scholars. Dahl (1996) maintained that the advent of pluralist politics meant that groups were legitimate and necessary to the proper functioning of democracy (polyarchy) and that conflict was inevitable, normal, and desirable. However, it should be emphasized that the valorization of groups was largely predicated upon their contribution to decision-making processes. There were no social capital expectations in line with the expanded contemporary view of groups as *schools of democracy*, participatory vehicles, or generators of civil and democratic values. The pluralists saw groups as the most effective representative vehicle that could be trusted to single-mindedly focus on the issue of *greatest concern* to citizens. Parties were ideologically feeble encompassing entities characterized by compromise and catch-allism. Katz (1997: 41) notes that Ostrogorski (1902) rejected the idea that a political party could effectively represent the popular will in a range of areas. Ostrogoski championed disposable single-issue politics. Parties should be replaced by organizations which in turn would evaporate once the relevant problem was solved. Almond and Verba (1963: 192) argued that irrespective of the democratic role of parties '*relatively few citizens think of them as the first place where support may be enlisted for attempts to influence government*' (original emphasis). Even leading party scholars concede that group involvement may be more fulfilling. Seyd and Whiteley (1992: 204) suggested that for many citizens participation in single-issue interest groups and new social movements offered a more rewarding type of involvement than party membership. However, pluralistic positivism is not universally shared. Groups have been portrayed in a more shadowy light. Madison, Tocqueville, and Dahl have all been criticized for their overoptimism regarding the democratic contribution of groups. Berry (1989: 3) described Madison's 'cure' as 'something of a leap of faith'. While Dahl has been attacked for exaggerating the openness, and ease of, access to policy-making arenas, and the benefits of group proliferation and competition.

3. Proliferation and Competition

The number of national organizations listed in the US *Encyclopedia of Associations* rose from 6,000 in 1959 to over 10,000 in the 1970s, to 15,000 in 1980—plateauing at 23,000 by 1990 (Skocpol 2002: 131). In the UK circa 50 per cent of the 7,750 groups listed in the 2006 *Directory of British Associations* (CBD 2006) were formed between 1966 and 1995. From a pluralist perspective group proliferation and the representation of new and hitherto under-represented concerns is a cause for celebration. These organizations contribute to the policy-making process and force greater openness and inclusiveness. Many of these 'new' groups developed policy expertise that *guaranteed* them a seat at the policy-making table and greater competition increased the pressure on all actors to advance more persuasive and compelling cases.

However, while group density is seen as beneficial, diversity may be a more important measure (Gray and Lowery 1996). The nature of ('newer') groups needs to be assessed. If 'more' simply means of the same, or if a new type of actor becomes dominant within the system then we have greater density, but less diversity. Normatively the system could be viewed as less democratic. Scholars such as Dahl and Lindblom (1976) and Lindblom (1977, 1988) argued that certain resource rich organizations—most notably business groups—were dominant. Business was characterized as playing a role unequal to other interests—it was 'distinctive', exercised a 'disproportionate influence', and occupied a privileged position in the policy-making process (Lindblom 1988: 10). The notion of meaningful competition between diverse groups was a sham—the system more closely resembled a monopolistic or oligarchic structure. These arguments were partly predicated on the fact that business had mobilized extensively during the 1960s and 1970s. Vogel (1989: 197) found that the number of companies with offices in Washington, DC, increased from *c*.100 to over 500 between 1968 and 1978.

However, there is an alternative school of thought that sees the growth of business representation as a reactive phenomenon and an indicator not of strength, but weakness. Walker (1991) and Berry (1993) argued that business mobilized in response to the expansion of the regulatory state and because a number of public interest groups enjoyed some notable political successes. Several scholars also argued that in the 1980s and 1990s the policy process became more open. Issue networks rather than iron triangles or subgovernments were increasingly prevalent (see Berry 1994; Jordan and Maloney 1997*c*; and Salisbury 1992). Berry (1993: 31) maintains that the upsurge in citizen group activity had a significant impact on the policy-making process in the US—making it 'more open and more participatory'. Finally, the privileged position thesis may also exaggerate the capacity for business to act as a homogeneous unit. There are numerous areas where business finds it difficult to reach a common position and many instances of intra-business conflict.

Many scholars (Beer 1982; Euchner 1996; Olson 1982; and Schumpeter 1951) do not view group proliferation as beneficial. Olson (1982: 237) maintained that it was 'harmful to economic growth, full employment, coherent government, equal opportunity, and social mobility'. Euchner (1996: 2) argued that it caused governmental gridlock in the US as the exponentially expanding interest group universe spent millions of dollars pressing government to start, continue, or expand programmes that favour a 'narrow band of clients'. While Beer (1982: 1–2, 4) bemoaned the advent of *numerical pluralism*:

> Repeatedly . . . the dictates of collective rationality have been disregarded and the self-defeating logic of short-run self interest has won out . . . This rising pluralism so fragmented the decision-making system as to impair its power of acting for the long-term interests of its members.

Governments are portrayed as group appeasers and while each concession is relatively small the cumulative 'damage' is seen as great. Groups not only seek to redistribute scarce resources in favour of their clients, 'their' lobbying activities may also 'corrupt' electoral choices. As President Carter noted in his farewell address single-issue and special interest organizations tend 'to distort our purpose because the national interest is not always the sum of all our single or special interests' (quoted in Berry 1989: 17).

Cupps (1977: 481) argued that many single or 'special' interests are a bane on the political system because they represent narrow constituencies and pursue policies

> ostensibly 'on behalf of the public' ... (which) shroud the fact that the interests of one segment of the public are being pursued at the direct expense of others. There are those who argue that consumer, environmental, and other so-called 'public interest' issues are in reality middle and upper middle class concerns which are addressed for the most part at the expense of the poor, the aged, and urban and ethnic minorities.

Cupps (1977: 480–1) further argues that the public interest is what citizen groups say it is. The environmentalist sees it served by concomitantly expanded *and* contracted public participation: i.e. more influence for groups holding 'consistent environmental views' and less for competing/opposing interests. O'Connell (1999: 84), former President of the *Independent Sector* in the US has much sympathy for such views: 'my most trying times involved dealing with people who insisted that government protect their freedom to do what they passionately believed was in the pubic interest but who wanted the same government to use its power to squelch those with whom they bitterly disagreed'.

As Rosenbaum (1973: 103–4) highlights there is no political science consensus on what 'public interest' means. He maintains that public interest policies are those designed to benefit a great many people or the entire public, as opposed to a more limited clientele or 'economic interests'. Kollman (1998: 51) says the 'public interest' is not always or only advanced by public interest groups, but these actors are distinctive because they claim 'to represent interests that are not linked specifically to members of the groups'. However, most groups could construct a plausible argument that they act on behalf of, or seek benefits that accrue to, the wider community. Any major industrial or service employer could point to the employment it generates and tax payments it makes to a country's Treasury as being in the public interest. As Chase (1945: 24) succinctly puts it, 'All pressure groups protest that they are concerned with the "public interest". This comes as naturally to them as for a parson to declare himself against sin.'

4. Self-Interest and the 'Collective Good'

In general, the social capital model valorizes the active civic-minded *good citizen*. However, it is crucial to recognize the first principle of joining. In many civic and political organizations citizens join out of self-interest. Tocqueville ([1848] 1966: 527) noted that 'the civic community' did not comprise altruistic saints, and 'private interests will more than ever become the chief if not the only driving force behind all behavior'. Putnam (2000) perceives social capital as 'simultaneously a private good and a public good' (quoted in Putnam and Goss 2002: 7) and notes that social capital turns the 'I' into 'We'. However, it starts with the 'I'. Adam Smith famously argued that citizens cannot expect to prosper on the basis of altruism or philanthropy alone, but as a result of self-interest: 'It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest' (Smith [1776] 1976: 26–7). However, as Joseph (1995: 10) highlights Smith was a moral philosopher whose 'economic theories were based on his ideas about moral community, especially the notion that the individual has the moral duty to have regard for fellow human beings' (quoted in O'Connell 1999: 20). Ladd (1998: 1–2) notes the paradox that the US is an individualistic democracy that is predicated on cooperative activities. He quotes Schlesinger's 1944 essay on what individualism meant to American citizens: 'not the individual's independence of other individuals, but his and their freedom from government restraint. Traditionally, the people have tended to minimize collective organizations as represented by the state while exercising the largest possible liberty in forming their own voluntary organizations'. In essence this is what Dahl (1996: 213) labels *modern individualism*: 'each citizen is or should be moved by self-interest ... [However, this] does not require one to deny that individuals may have an interest in protecting or advancing the ends of larger community to which they belong.'

This view of the modern democratic citizen offers greater grounds for optimism than participatory idealists such as Barber (1984) may allow. Self-interest is far from a pathology. If all citizens were motivated solely by regard for others then it is likely that their appetite for involvement would quickly evaporate. The fact that in many instances citizens are driven by their own egoism and are incentivized to become engaged through self-interested behaviour contributes to the health of democracies. Helping one's self can aid the collectivity and contributing to the collectivity can benefit the individual. Olson (1982: 34) highlighted the relationship between self-interest and collective outputs—perceiving the collective component as the by-product of self-interest—'groups that have access to selective incentives will be more likely to act collectively to obtain collective goods than those that do not'. Olson (1965) provided a cogent critique of the pluralist viewpoint that the barriers to mobilization were relatively low and that most interests could find a voice. He maintained that the group population was likely to be biased in favour of groups that are easier to mobilize: e.g. those that offer selective incentives to stimulate membership, such as professional or business associations. Olson's elegant thesis has been subject to much theoretical critique and empirical testing[3] and there has been strong support both for and against his perspective. At first sight, the empirical evidence appears to seriously undermine his theoretical proposition. Many public interest groups have thriving memberships numbered in the hundreds of thousands. However, Olson (1982, and Hardin 1982, 1995) reject arguments that his thesis is mortally wounded by the existence of a multitude of well-supported public interest groups. The potential membership of many organizations falls way short of the actual membership because these groups failure to offer (adequate) selective incentives. Olson (1982: 34) maintained that:

> In no major country are large groups without access to selective incentives generally organized—the masses of consumers are not in consumers' organizations, the millions of taxpayers are not in taxpayers' associations, the vast number of those with low incomes are not organizations for the poor, and the sometimes substantial numbers of unemployed have no organization voice.

Irrespective of these highly persuasive rejoinders, it is clear that Olson overegged his pudding. His neat theoretical argument did explain some nonparticipation, but its universality has been subject to several robust challenges (Green and Shapiro 1994; Hirschman 1986; Marwell and Ames 1981; Walker

1991). Much participation in groups seeking collective goods is motivated by the provision of collective, not selective incentives. However, selective incentives are not irrelevant! Recent empirical research has highlighted the importance of selective incentives in organizations seeking collective benefits. In a mail survey of—and in-depth interviews with—*campaign group leaders* in the UK, Jordan and Maloney (2007) identified self-interested motivations as an important factor in the membership decision. Leaders were asked to indicate (via a mail survey) the *primary purpose* of their organization. It is of little surprise that 47 per cent of respondents said that their organization existed 'to benefit non-members or to promote a cause'. However, it is interesting that 12 per cent said the groups existed primarily to benefit members and 41 per cent highlighted both equally. The two latter responses signal the greater importance of self-interest than may have been anticipated or hitherto recorded in the literature. Groups' leaders were also asked what were the *most effective* incentives in retaining support: 32 per cent said 'free benefits'; 24 per cent 'events and personal contact'; and 14 per cent 'support on individual problems'—all selective in nature. The representative of the consumer group interviewed said:

> People subscribe for selfish interest. They do not subscribe, from the evidence I've seen since I've been here, for the good of the consumer, or the greater good. They're not interested at all in our lobbying activity; they're not interested in the charitable side. Most people don't view us as a charity . . . there's no altruism at all.
>
> (Quoted in Jordan and Maloney 2007: 132.)

Given such evidence Jordan and Maloney (2007: 142) concluded that campaign group leaders were

> remarkably by forthright about the language and tactics of wing *selective* and often *material incentives* as a key tool in the recruitment of supporters and members. Survey evidence of members (such as the one reported here) that point to members of being essentially motivated by altruism and 'other-regarding' activities have been qualified by those most in the *know*: the industry professionals. Experienced practitioners hold a divergent view.

While Olson's 'near ubiquitous' claims are too great, there also appears to have been an overreaction to his *heresy*. Verba, Schlozman, and Brady's (1995: 506–7) seminal study on civic voluntarism in the US found that much citizen participation accorded to a 'liberal model of American democracy'. The principal role of citizen participation is to communicate to policy makers 'activists' self-interested objectives'. However, they argue that the *politics of* *ideals* operates—citizens also convey what they believe government should do on many issues that are not of direct material self-interest. Mansbridge (1990: ix, 20) provides a balanced assessment:

> *Self-interest explains most of human interaction in some contexts, and it plays some role in almost every context* ... [However,] the claim that self-interest alone motivates political behavior must be either vacuous, if self-interest can encompass any motive, or false, if self-interest means behavior that consciously intends only self as the beneficiary. (Emphasis added.)

We should not be rosy-eyed or civically depressed about why people join organizations, why they remain members and how they generate and access social capital—their (continual) involvement *makes democracy work*. It is clear that citizens seek to advance collective ends and/or defend causes—some of which do not deliver a direct (selective/material) payback and that self-interest also engenders much citizen action. Rosenblum (1998: 48) argues that we should not be concerned by narrow self-interest or selfish behaviour because groups limit it and act as a democratic safety value. Organizations provide 'relatively benign outlets for ... narrow self-interest'. Finally, it is worth noting that when evidence (hard, circumstantial, or anecdotal) points to citizen disengagement the cacophony of doom becomes deafening.

5. Checkbook Groups: Involvement, Responsiveness, and Equality

Involvement

Group proliferation witnessed the emergence of many groups that mutated into *protest business*-type organizations (Jordan and Maloney 1997*a*)—professionalized, bureaucratic, interest groups staffed by lobbyists, scientists, and public relations and fund-raising specialists. Many of these groups have sought to influence policy outcomes largely without the active assistance of members—beyond mobilizing their chequebooks. Skocpol (1995) reported that nearly 50 per cent of some 3,000 *social welfare* and *public affairs* groups established between the early 1960s and the 1980s, had no members. In a recent UK population survey, Pattie, Seyd, and Whiteley (2004: 77–8, 98–9) found that donating money to groups was the most popular participatory activity (62 per cent). While Verba, Schlozman, and Brady's (1995: 67, 518) US survey noted that 69 per cent of those who had taken part in political campaigns were wholly chequebook participators. As Crenson and Ginsberg (2002: 2–3, 182–3) highlight, financial contributions

> to political organizations is the only activity to register an unambiguous gain since the 1950s ... As a result, environmental groups have few members, civil rights groups field more attorneys then protestor, and national political parties engage in activation of the few rather than mobilization of the many.

There are many reasons why large-scale groups seek to limit membership involvement. Lansley (1996: 222–3) identified several factors. First, it is impracticable to involve large numbers of members in a group's work. Size necessitates/drives staff-dominated structures. Secondly, the depth of organizational *complexity*. The division of labour in large-scale groups will be predicated on specialization, comprising fundraising and marketing department, scientific research, governmental affairs, or campaigning sections etc. These areas are controlled by technocrats with little room for membership input. Thirdly, Michels ([1915] 1959) 'iron law' operates. As these groups evolved into large beasts ('who says organization, says oligarchy') *differentiation* and *specialization* have lead to actors carrying out key tasks and gaining power and control. Fourthly, *organizational structure*. The degree of (de)centralization is important. Groups with regional structures may offer greater opportunities for member involvement. Although in many cases this does not lead to a policy-making role in the central organization. Fifthly, the intensity of members' commitment. If members actively seek out groups or join because of a strong ideological commitment then there may be greater pressure on the leadership to be responsive. If ideological commitment is weak, or if the group utilized sophisticated marketing techniques to construct its membership, then members may make little demands on the organization and groups will seek to deliver other membership benefits. Sixthly, constitutional *or structural factors*. Legal restrictions or organizational constitutions may limit the degree of membership involvement. In addition to those noted by Lansley (1996) there are other reasons why organizations seek no-strings-attached financial supportership, rather than an active democratically imbued membership. Seventhly, servicing a membership can be a drain on organizational resources—members are more expensive than supporters or donors. Indeed, Skocpol (2002: 134) went so far as to argue that for many groups 'members are a non-lucrative distraction'. Eighthly, being a supporter—as opposed to a member-based organization—circumvents the problems of internal democracy and policy interference. Ninethly, the growth of patronage. Cigler and Nownes (1995: 82–4) found that 50 per cent of the public interest groups they surveyed received 50 per cent of their funds from patronage. The figure for membership fees was 36 per cent. Organizations that are heavily reliant on patronage may not require a grassroots membership. Finally, for many groups members have become a luxury because they can exercise influence without them. They use litigation and have developed policy expertise that has a currency in the policy-making process. As Crenson and Ginsberg (2002: 147) argue, 'The new politics of policymaking attempts to open itself "to all those who have ideas and expertise rather than to those who assert interest and preferences". Those admission requirements exclude the great mass of ordinary citizens.' In his work on fostering neighbourhood democracy Chaskin (2003) highlighted the importance of expertise, but he also pointed to the changing nature of the relationship between groups and policy makers as being partly driven by the professionalization of public agencies. He quotes a director of a well-established Community Based Organization:

> In the old days, we could get a few busloads of people to come down scream at the city council and that seemed to work, do what we wanted it to. But largely, the agencies have grown up. We know how to tweak public policy, we know how to get enough to make sure that we run and we know how to game the system. We've learned a lot in the last 25 years. We don't have to bring out the buses anymore and that bothers me to no end. (Chaskin 2003: 179)

It appears that the groups have responded to the changing policy-making context. Affecting outcomes now require less membership muscle and more policy expertise and professionalism.

Empirical evidence also shows that members are content—and many actively seek—to *contract out the participation function* (Maloney 1999; Jordan and Maloney 2007). In this respect groups are exploiting a market niche. A survey of Friends of the Earth (FoE) and Amnesty International (British Section) in the 1990s found that over 70 per cent of both groups' members said that opportunities for active involvement was not 'important' or 'played no role whatsoever' in their decision to join (Jordan and Maloney 1997*a*). Similarly, in-depth interviews with campaign group leaders in 2001 illustrated that their experience reinforced such findings. A staff member from the

Council for the Protection of Rural England (CPRE) said that the organization positively encourages active involvement. However, it has been partly forced into protest business-type behaviour by the reluctance of the many members to move beyond passivity:

> We think we'd lose them if we did that (press for more active membership) because they're people who want to give money and they don't want to do anymore than that . . . It's much easier to recruit people who just want to pay money than recruit individuals into an organization where they potentially see it as a time-related activity . . . So the whole task has to be geared around saying 'oh don't worry, we're not expecting you to come to meetings and things, we just want your support'.
>
> (Quoted in Jordan and Maloney 2007: 158–9.)

Clearly, the social capital building potential of such involvement is limited. As Verba, Schlozman, and Brady (1995: 518) note chequebook participation 'provides activists with relatively few gratifications' and it has been described as *astroturf* as opposed to *grassroots participation* (Cigler and Loomis 1995: 396). However, the core aim of these groups is to affect policy outcomes, not deliver social capital outputs or enhance participatory democracy. Rosenblum (1998) dismisses the synthetic argument:

> Critics deny that it is a legitimate expression of popular sentiment because staff-led organizations orchestrate campaigns and motivate people to act manipulatively, by arousing fear on highly visible issues. Certainly, electronic mail fits no description of sober dialogue. But *it is churlish to deny that this is democratic participation on a massive scale*. Or that it is educative; it brings day-to-day politics that are otherwise distant and physically remote . . . home . . . It certainly engages the elderly more than mailing an AARP dues check in return for benefits.
>
> (Rosenblum 1998: 234–5; emphasis added.)

So the chequebook participation account is not all in deficit. First, chequebook involvement reduces the participatory burden and citizens are able to patronize many good causes. Secondly, it is purposive in that 'it reflects some degree of unhappiness with the way things are' (Salisbury 1992: 216). Thirdly, as Hayes (1986: 143) argues, many concerns represented by chequebook groups are susceptible to the free-rider problem—without this organizational form many 'interest(s) would remain unorganized'. Finally, while many chequebook groups mobilize negligible proportions of members (e.g. as low as 1–5 per cent) there remain two 'positive' outcomes: (1) through local chapters and branches these organizations offer opportunities—for those who want them—to meet on a face-to-face basis and therefore add to the stock of social capital; and (2) the numerical supremacy of such groups means that the cumulative effect of individually low participation rates can be great.

Responsiveness

The social capital expectation is that groups should be open with transparent decision-making processes and an accountable and responsive leadership in order to promote democracy itself. However, as Berry (1977: 187) notes the most interesting aspect about many public interest groups is not that they are oligarchic in practice, but that there are not even symbolic concessions to a democratic structure. The leadership is self-selected and democracy is underpinned by *loyalty* or *exit*, but not *voice* (Hirschman 1970). Many of these organizations are engaged in a fierce competition for membership support and loyalty—exit is a real threat. Loyalty is particularly important to these organizations because a large percentage of membership operates on a revolving-door basis. In short, if a group fails to deliver on either action and/or outcomes then members are free to join a competitor organization. This pressure ensures responsiveness and representation *of* membership interests in a market-like efficient manner. Group leaders are also limited by members' stated or latent values and expectation. In other words, members may occupy an 'empty seat' in many decision-making forums and there is a process of anticipated reactions: leaders know that members' ultimate recourse is to vote with their feet. Dahl (1961: 89–90) maintains that 'the relationship between leaders and citizens in a pluralistic democracy is frequently reciprocal: leaders influence the decisions of constituents, but the decisions of leaders are also determined in part by what they think are, will be, or have been the preferences of their constituents'.

Many groups undertake sophisticated market research to gauge members' views on a variety of issues and group direction is steered (to some extent) by supporter/member attitudes. Group intelligence on members' views is highly sophisticated as the 'science' of marketing, recruitment, and retention has advanced in recent years. Such professionalization can be seen as increasing responsiveness. Over core issues it is not difficult for leaders to anticipate members' views—e.g. anti-smoking groups don't need to ask members if they should support restrictions in public places, but they may need to gauge members' views on campaigning for a partial ban. If group leaders perceive that a significant proportion of their members are opposed to a specific policy proposal they may shy away from campaigning on it for fear of provoking a mass exodus. In market-driven societies many groups conform to dominant structure and offer involvement on a supplier/customer basis. Citizens are free to buy group membership in the same way that they buy other goods and services.

Arguably the non-formal responsiveness that exists in many interest groups may not necessarily be of poorer quality than many entities with heavily institutionalized structures. Trade unions have never been awash with deeply involved members, and as well-documented, political parties do not have an unblemished record of responsiveness to members. There are many instances of the leadership of the UK Labour Party simply ignoring decisions (based on delegates' votes) taken at the annual conference.

Rothenberg (1992) argues that public interest groups provide *motivational* and *informational* linkage. At the motivational level, linkage is delivered through members' support for the organization's political aims. Groups nourish a more informed citizenry through the provision of information about activities and policy developments. However, given the lack of face-to-face interaction critics would argue that the information that the group provides is partial, skewed propaganda aimed merely at heightening feelings of crisis—*ambulance chasing*. Godwin (1992) found that chequebook participation had a significant impact on the lobbying strategies and tactics of groups. These groups thrive on the oxygen of publicity and for organizational maintenance reasons were likely to select highly visible and emotive issues that generate media coverage. Godwin (1992: 318) quotes on consumer lobbyist: 'If the press isn't going to be interested, then neither are we. We have to show our members we're doing something.'

Even if there remain concerns about the lack of organizational responsiveness and accountability in many groups. It is worth emphasizing that there is room for the dark side of social capital to rear its ugly head in the most internally democratically pure groups. In an idyllic group that was a paragon of democratic virtue—formal and *effective* internal democratic procedures with a leadership being elected that was representative of, and responsive to the membership; and where policy was developed in line with membership demands, values, and goals—group members may be a miniscule element of the population and their views and objectives could conceivably be morally repulsive and anti-democracy. As Lipset argued:

An organization under direct membership control may become irresponsible from either the vantage point of its needs or those of society. The members may want their 'selfish' objectives pursued even if achieving them will hurt others or endanger the organization . . . extending the functions of such organizations so as to integrate their members may threaten the larger political system because it reduces the forces for making compromise and understanding among conflicting groups . . . it may be necessary to recognize that many organizations may never fulfill the conditions for a stable internal democracy and still contribute in important ways to the democratic process in the total society, by providing a secure base for factionalism and real vested interests at the same time that they limit individual freedom within the organization and allow a degree of autonomy of action for both leaders and the organization which may undermine social values. This is another case of the incompatibility of values where they have contradictory consequences. There is no simple answer that can resolve these problems of democracy in modern society. (1983: 432–3)

Equality

As maintained in Verba, Schlozman, and Brady:

meaningful democratic participation requires that the voices of citizens in politics be clear, loud, and equal: clear so that public officials know what citizens want and need, loud so that officials have an incentive to pay attention to what they hear, and equal so that the democratic ideal of equal responsiveness to the preferences and interest of all is not violated. Our analysis of voluntary activity in American politics suggests that the public's voice is often loud, sometimes clear, but rarely equal. (1995: 509)

The fundamental assumption is that it matters who participates! Politicians and policy makers will respond to the best organized interests that advance the most coherent, compelling, and convincing case. Or those who mobilize the most resources or shout the loudest! If some voices are unraised or unheard the result is likely to be political inequality. One of the persistent problems for advanced democracies is the continuing socio-demographic unrepresentativeness of participators. The democratic implications are clear. The fact that those most involved are drawn from a relatively small subset of the citizenry (i.e. the more affluent and highly educated) creates a *democratic paradox*. Those who stand to gain the most from involvement (disadvantaged groups) participate the least. In recent years, *participatory distortion* (Verba, Schlozman, and Brady 1995) has been further exacerbated by the recruiting strategies of many chequebook groups. These organizations target individuals who possess specific socio-demographic characteristics and lifestyles because there is a greater chance of converting such predisposition into membership (see Bosso 2003; Jordan and Maloney 1997*a*, 1997*b*, and 2007). These *resource* *rich* citizens can afford, and are more likely, to indulge their predispositions. Godwin (1992: 323–4) found that direct political marketing increased rather than decreased the existing biases in participation and within their *Civic Voluntarism Model*, Brady, Schlozman, and Verba (1999) identified *rational prospecting* as crucial to their explanation of citizen recruitment. Prospectors assess the probability of participation via the resources the potential recruit possesses: 'rational prospectors look for deep pockets'. *Skewed* recruitment delivers *skewed participation* and political equality is further compounded by the fact that those mobilized tend to hold multiple memberships.

However, it could be argued that while much of this participation is *by* or *of*, it is not necessarily *for*, a class. These middle-class participators are engaged in the advancement of many causes that benefit constituencies and interests beyond their own immediate location. Imig (1994) talks of 'advocacy by proxy' to describe how individuals are mobilized to act on behalf of client groups (e.g. Make Poverty History). McCarthy and Zald (1973: 17–18) argued that many early civil rights groups in the US were heavily populated by whites. While the group most likely to benefit from the success of such groups were black citizens (cited in Baer and Bositis 1993: 163). There are logistical and practical reasons why groups may not seek to mobilize their constituencies, most notably where the clientele base is children, or animals or the mentally ill (Crenson and Ginsberg 2002: 151). Groups can act as surrogates for citizens that lack the necessary resources. While the empirical evidence identifies the 'negative' aspects of skewed involvement it also points to more 'positive' biases towards increased political knowledge and tolerance. As Verba, Schlozman, and Brady note, while the privileged are the most involved these

> activists . . . are better informed and more tolerant of unpopular opinions. Thus, while the process exacerbates political inequality, it may enhance the quality of political discourse and democratic governance . . . (these citizens) conform to participatory democratic notions of the good citizen. And a participatory system that overrepresents their interest also overrepresents the politically informed and tolerant. (1995: 507, 529)

It should also be emphasized that many socially and politically disadvantaged citizens share several concerns with active resource rich citizens (e.g. crime, environment, education, health care, security, etc.). In this respect affluent civic-minded citizens disproportionately patronized many interest of mutual concern. For example, in a recent survey of members and potential members of environmental organizations Jordan and Maloney (2007) found that 53 per cent of members had household incomes above £30,000, 56 per cent were university educated, and 73 per cent were employed in professional or managerial occupations. In the non-member group that shared comparable levels of environmental concern—reflected in their attitudes and behaviour (excluding joining environmental groups)—only 26 per cent had household incomes above £30,000, 25 per cent were university educated, and 31 per cent were employed in professional or managerial occupations (36 per cent are manual workers—only 9 per cent of members are in this occupational group). Jordan and Maloney (2007) report that many non-joiners report a lack of disposal income as a major reason for their non-membership and the demographics lend support to these views as being more than *post hoc* justifications. In this respect, the financial patronage of groups by the more affluent is analogous to a progressive taxation system.

6. Conclusions

Social capital and interest group perspectives maintain that groups deliver substantial societal and democratic benefits (e.g. social and political integration, participatory and representative institutions, etc.). These viewpoints are not universally shared and it is clear that group-based democracy has many blemishes (e.g. skewed involvement, inequality, silent voices, 'dark side' social capital outputs, etc.). The key issue however, is on what side of the cost/benefit analysis does the group contribution fall—a net deficit or surplus? Viewed in this light, it is difficult to resist Madison's ([1787] 2003) or Dahl's (1996) 'warts and all'-type conclusion that without groups there is no democracy. There is much conflict within the group universe. However, in most cases it is not inimical to democracy. It can, in fact, be seen as beneficial in that it is institutionalized and, as such, acts as a democratic safety value. As Skocpol (2003: 235) concludes, 'Conflict, tough argument, and close competition are good for democratic civil society and for electoral democracy.' It is also clear that groups pursue citizens' self-interested concerns and at times this may be detrimental to other interests or may even the collective good. However, the ability to undertake these activities is a fundamental right and if groups are restrained then democracy itself will be 'abandoned . . . because their activities are absolutely vital to the form' (Mueller 1999: 172; see also Berry 1989: 1). While there is much wrong with the group system—there is also much right with it. It may be far from optimal, but we may be better off with rather than without it.

Notes

1. Berry (1977 and 1984), Walker (1991), and Cigler and Nownes (1995) all highlighted the importance of patronage. Walker (1991: 75) found that 89 per cent of citizen groups received patronage in the nascent stage of development.
2. Madison ([1787] 2003: 71) defined a faction as 'a number of citizens, whether amounting to a majority or minority of the whole, who are united and actuated by some common impulse or passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community.'
3. Interestingly, Olson actually predicts non-participation; almost *all* the research responding to his propositions focuses on the reasons citizens advance for joining.

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CHAPTER 12

NEIGHBOURHOOD POLITICS[1]

HERMAN LELIEVELDT

1. Introduction

On a cold Sunday in January 2003 a remarkable event took place in the Korenaardwarsstraat, a small street in inner-city Rotterdam, the Netherlands. On that day its residents—accompanied by the city's politicians and policy makers—witnessed the inauguration of the city's first *greeting zone*. A road sign sporting a big waving hand and the text 'greeting is allowed!' encouraged residents to say hello to each other. The initiative came from an active member of the Dutch progressive party GroenLinks who lamented the absence of the greeting customs that he had grown up with as a child in a little village, once he moved to the city. According to him 'Saying hello to each other creates a positive atmosphere in the street, reduces its anonymity and facilitates small talk with your neighbours.' On a website devoted to the initiative, the party explains that this is the first step to a safer neighbourhood: 'if the residents of a street get to know each other, people will look after each other (in the right sense of the word) and take care of their neighbourhood.'[2] In fact this was exactly what had happened in the Korenaardwarsstraat: it used to be a quite troublesome street with frequent conflicts between residents and nuisance children playing and shouting on the street until late at night. But after its residents got together several times and agreed upon the rules they should live by, the situation improved dramatically. Residents themselves—albeit with a little help from social workers—formulated and implemented 'policies' that were necessary to make their street a more pleasant place to live. This meant that people themselves enforced the rules that were agreed upon, something that only had become possible because in the process of dealing with these problems people finally had got to know each other.

The story of what is certainly the world's first official greeting zone provides the perfect background for an analysis of the relationship between social capital, neighbourhood problems, and neighbourhood-oriented forms of participation. A socially disintegrated neighbourhood suffered many problems because common norms and the networks necessary to sustain them were absent. At a certain point—when the situation became really unbearable—residents succeeded in overcoming these problems by getting together, agreeing upon the norms, and implementing them themselves. At the same time the story shows the complicated relationships that may exist between the concepts. The neighbourhood was trapped in the negative equilibrium of low levels of social capital and a high number of problems. These problems became so unbearable that residents got together to deal with them and actively raised levels of social capital. Once levels of social capital were restored, the neighbourhood could draw upon these stocks to prevent problems from developing and to deal with any problems that nevertheless might arise. On the one hand it helped to prevent problems from developing and on the other it facilitated activities to tackle any future problems that might arise. But which types of social capital are relevant for these two different mechanisms? And to what extent do problems (and perceptions of problems) affect levels of social capital that help prevent problems and levels of participation which are in turn necessary to tackle them?

In this chapter I discuss these complex relationships by focusing upon two questions. First, what is the relation between social capital, (the perception of) neighbourhood problems, and neighbourhood-oriented forms of participation? Second, if higher levels of neighbourhood social capital are indeed the key to a liveable neighbourhood, to what extent is it feasible to raise levels of social capital by specifically targeted policies?

The focus in this chapter is on the events that take place in someone's neighbourhood, which we will define as the immediate residential environment, be it in an urban, suburban, or rural context. It is exactly and simply because people *live* there, that they have a vested interest in the condition of the public space that surrounds their home—not only because they and their children will spend considerably there but also because the purchase of a property is a significant financial investment. Following Baumann, we might even posit that quite paradoxically in a world that becomes ever more globalized, the value of place has probably only increased: precisely because everything can be done everywhere all the time, people's desire to commit themselves to specific places has only grown. '[E]ven the members of the globe-trotting elite need breaks in the harrowing, nerve-straining voyages, times to disarm and rest . . . and for this they need a secure place of their own' (Baumann 2001: 113). Now, to what extent do residents engage in neighbourhood related political activities and how do they respond to neighbourhood problems in particular?

After presenting a simple analytical model in which I will distinguish between structural (social networks) and attitudinal (trust, sense of duty) types of social capital, I focus first on the relationship between social capital and the perception of neighbourhood problems and subsequently on the relationship between social capital and neighbourhood-oriented forms of participation. Finally, I examine policies that seek to address neighbourhood problems through increasing levels of social capital.

Throughout the chapter the primary focus is on individual residents and the impact of social capital on their problem perceptions and behaviour. Though no direct attention will be devoted to the role of organizations (e.g. community groups, tenant's associations) as political actors themselves, they will figure in this chapter as one of the sources of social capital. The issue that interests us in particular is the extent to which such associations have to be neighbourhood based to have an impact upon neighbourhood-oriented forms of participation. Is involvement in any kind of voluntary association a stimulant to addressing neighbourhood problems, or do we find specific impacts of membership of neighbourhood-based organizations?

2. Neighbourhood Problems, Participation, and Social Capital

The conceptual model outlined in Figure 12.1 consists of social capital on the one hand and neighbourhood problems and neighbourhood-oriented forms of participation on the other hand. The left side of Figure 12.1 lists the

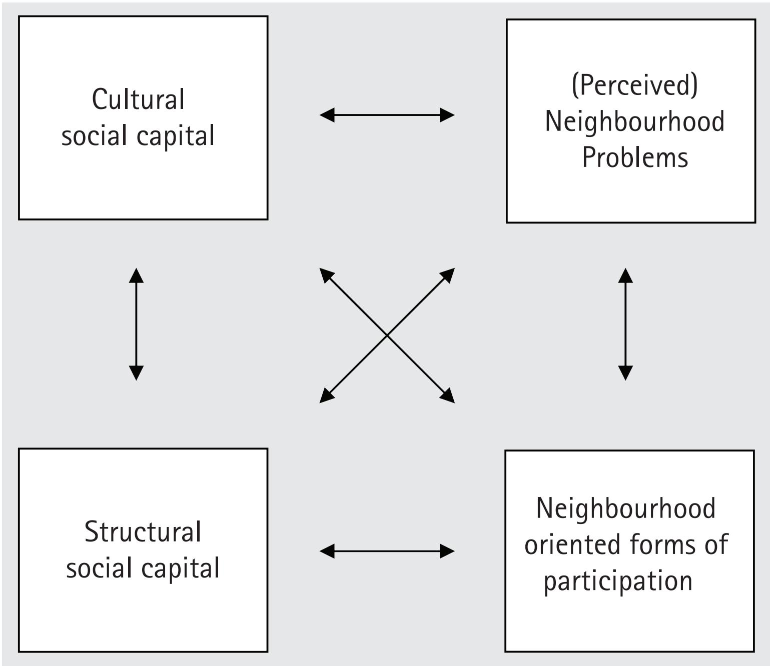

Fig. 12.1. Social capital, problems, and neighbourhood-oriented forms of participation

different types of social capital that may affect both the level of neighbourhood problems and participation. Here I follow the now customary distinction made between a 'structural' and an 'attitudinal' dimension of social capital (Hooghe and Stolle 2003: 2; van Deth 2003). The structural dimension refers to the extent to which citizens are engaged in all kinds of informal and formal networks that may connect them to their neighbourhood (via contact with neighbours or memberships in community groups) as well as the wider world (connections at the workplace and memberships in all kinds of associations). The attitudinal dimension is about people's mindsets and consists not only of trust but also of norms and values (van Deth 2003: 86). The trust dimension—the most heavily studied of the two—refers to personal and social trust and tells us something about an individual's outlook on fellow citizens, which may have important implications for one's own behaviour, for example, the willingness to invest time in the provision of collective goods. Norms and values, the second aspect of the attitudinal dimension, refer to obligations, democratic orientations, and levels of tolerance. The relevance of making the distinction between trust and norms becomes clear when one thinks of a person who does not trust his neighbours much—and would not be motivated to do something out of a sense of reciprocity—but at the same time has a considerable sense of duty that nevertheless makes him engage in some form of participation.

Turning to the right side of Figure 12.1, in order to qualify as a neighbourhood problem, residents should experience an undesirable situation in their neighbourhood, which is inescapable because it occurs near the place where they live, often right in front of their home. One may think of dirt, traffic noise, groups of nuisance youngsters hanging around, and the risk of burglaries in homes and from cars. Keeping all other factors constant, a higher level of perceived problems will make people more inclined to do something about them (Greenberg 2001; Woldoff 2002; Kang and Kwak 2003; Lelieveldt 2004; Sampson 2004). Of course the 'objective' level of problems stands out as an important determinant (Ross, Mirowsky, and Pribesh 2001; Sampson 2004), but as we shall see, social capital affects this relationship as well, both directly and indirectly.

Turning to the bottom right of Figure 12.1, within the context of this chapter the focus is upon neighbourhood-oriented forms of participation. To distinguish these activities from other types of political activities we will have to ascertain that the activities arise out of a need to address a neighbourhood problem—or are constitutive of public goods that are specifically targeted on one's own neighbourhood. They include the well-known conventional types of political participation that political scientists have charted such as voting, contacting, and various forms of protest activities. However, because the very vast majority of participation studies are action oriented (Brady 1999), it is often impossible to trace the origins of such participatory acts. In general we know that different types of social capital—such as social networks and membership in voluntary associations—raise levels of civic and political participation (for overviews see Huckfeldt 1979; Huckfeldt and Sprague 1993; van Deth 1997), but these studies do not reveal anything about the neighbourhood component that interests us here. Nevertheless, we will be able to draw upon a couple of studies that are specifically focused upon the neighbourhood.

What is more important when considering participation, is the fact that the range of neighbourhood-oriented forms of participation is much broader than what is covered by conventional studies of political participation, where the focus is almost exclusively on political institutions (Marschall 2004). What distinguishes neighbourhoods probably more than any other political entity is that they are the locus par excellence of 'informal governance':

What lends a political character to these unofficial measures of neighborhood governance is not the manner in which they are executed or enforced but rather the quality of the valued things that are being allocated.... They represent efforts to produce public goods.... Such improvised services may not be the acts of a neighborhood government, because they are not necessarily endowed with the kind of authority that governments exercise. But they are public undertakings all the same—measures taken to promote the general welfare on behalf of a neighborhood public.

(Crenson 1983: 159)

Informal governance is not only an important way to tackle problems, but also to prevent them from developing in the first place. Consider examples such as staring intently at a youngster who displays too much interest in the interiors of parked cars, commenting upon someone who throws away an empty can or even posting a sign that reminds people of the correct days that a garbage pick-up takes place. Though these activities do not seem at all heroic and are not aimed at influencing governmental action, they are nevertheless essential to keep neighbourhoods liveable. Residents themselves do not only participate in the classical sense of demanding some kind of action from the government, but should also be considered *co-producers* of 'policies' (Marschall 2004) by engaging in such kinds of activities.

Although indicators that are specifically neighbourhood oriented are relatively scarce, the social capital benchmark survey that was conducted in the US provides an indication of the relative importance of these activities. In this survey 38 per cent of the respondents said they had worked on a community project in the past twelve months, 39 per cent volunteered for the neighbourhood, while 32 per cent worked with others to 'get people to fix or improve something in the neighbourhood' (Saguaro Seminar 2000). These percentages are much higher than participation rates in many other voluntary associations listed by the survey, and a number of non-electoral forms of political participation like attending a meeting or joining a demonstration. Results from the social capital module of the General Household survey in the UK show that 27 per cent of the respondents in the last three years took some kind of action to solve a problem in their neighbourhood (Coulthard, Walker, and Morgan 2002). Finally, a more specific inventory of activities in a Dutch survey reports that about half of the respondents often or regularly sweep their street, keep an eye on a neighbour's home when they are on holiday, and say they have done something about a problem they encountered in their neighbourhood (Lelieveldt 2004: 540).

There are both theoretical and empirical reasons to suppose that there is a reciprocal effect of the different concepts upon each other. Activities may help to solve problems, but they may also suppress the number of problems that develop. Pro-social connections between residents (neighbourliness) may stimulate activities to tackle problems, while at the same time engaging in such problem-solving activities may be conducive to levels of social capital. As the introductory story of this chapter showed us, there are constellations in which the problem level of a neighbourhood has to pass a certain threshold, before residents get together and start doing something about them. In such a process the causal chain that restores and raises levels of social capital finds its origin in problems that are translated into activities that subsequently result in stronger social networks and higher levels of trust. While structural cross-sectional survey-based analyses often do not enable us to chart these processes through time, various case studies suggest that such a turnaround of the causal chain is indeed possible (Putnam and Feldstein 2003; Fung 2004: 122).

3. Social Capital and (the Perception of) Neighbourhood Problems

The first step in determining the effects of social capital focuses on its effect on (the perception of) neighbourhood problems. In particular attitudinal types of social capital may depress the number of problems residents face or perceive. These insights derive (amongst others) from criminological studies, such as a cross-national analysis of theft and violent victimization within the neighbourhood (Maas-de Waal and De Hart 2003; Van Wilsem, De Graaf, and Wittebrood 2003). Individuals that have more positive evaluations of the helpfulness of neighbours (and regions that contain higher percentages of residents with such evaluations) suffer lower rates of theft and individual victimization.

A similar stress on the importance of the attitudinal dimension of social capital can be found in Sampson's well-known analysis of the impact of a neighbourhood's *collective efficacy* on levels of victimization in Chicago. Sampson and his colleagues define collective efficacy as 'the linkage of mutual trust and the willingness to intervene for the common good' (Sampson, Raudenbush, and Earls 1997). It focuses on the *perception of residents* of what *their fellow residents* in the neighbourhood are *willing to do*, something Sampson himself refers to as 'expectations for action within a collectivity' (Sampson 2004: 161). Sampson and his colleagues find no direct impact of structural social capital on the occurrence of problems, but there is an indirect effect on levels of crime through its positive impact on levels of collective efficacy (Sampson and Raudenbush 1999; see Flap and Völker 2005 for a replication of these findings using Dutch data). Social networks per se do not guarantee the efficacy that is needed in order to limit the number affecting a neighbourhood; they need to be translated into a sense of the community, which is instrumental to addressing those problems. Therefore it may be perfectly possible to find constellations in which social networks at the neighbourhood level are dense, but problems still abound. Moreover, (perceptions of) disorder may reduce trust in fellow residents (Sampson 1999: 264), both directly and via its effect on the powerlessness of individuals (Ross, Mirowsky, and Pribesh 2001; De Hart and Dekker 2003: 165–6) and thus inhibit a neighbourhood's capacity to engage in problem-solving behaviour.

Turning to the relationship between structural forms of social capital and problem perceptions, the evidence is more mixed. Some research shows that connections with neighbours (Ross and Jang 2000) or the perception of living in a connected neighbourhood (Maas-de Waal and De Hart 2003) decrease the *perception* of crime as well. 'Knowing more neighbors can make residents *feel* safer' (De Souza Briggs, Mueller, and Sullivan 1997: 167). Other studies however do point to a direct *positive* effect of structural social capital—and connections with neighbours in particular—on problem perceptions, based on the idea that connections with fellow residents will make people better informed about the things that are going on in the neighbourhood (Crenson 1983: 159; Lelieveldt 2004: 543).

4. Social Capital and Neighbourhood-Oriented forms of Participation

While the previous section has made clear that there is an indirect effect of social capital on participation through the impact on (perceptions of) neighbourhood problems, this section examines the possible direct impact of social capital on participation. I will first argue why both informal and formal types of social capital within and outside the neighbourhood might induce participation and subsequently discuss empirical findings on the impact of these different types of social capital.[3]

The analysis begins with a review of the impact of informal social relations with neighbours on participation. There are various reasons why social relations in such a setting facilitate someone's efforts to do something about the problem. According to the *primordial view* of local communities such as has been developed by Chicago sociologists (Guest and Oropesa 1986: 552), social ties are an indicator of someone's emotional attachment to the neighbourhood and its residents. The more strongly someone is attached, the more willing such a person would be to defend the interests of the local community and fellow residents who live there. Neighbourhood problems will be felt more heavily by those residents who are more socially embedded in the community than by isolates, and therefore we will expect them to be more politically active to tackle them than those residents without any social connections.

The second reason that connections may matter is that locally connected residents will be more informed about problems in the neighbourhood and that they will discuss them with fellow residents. Such talk is often a prelude to some kind of political action (Crenson 1983: 155–6). Finally, being connected also increases the chance of being asked by someone to become active or join some kind of local collective action.

The other source of structural social capital within the neighbourhood is of the formal type and derives from involvement in what could be called neighbourhood-oriented associations, such as community organizations or playground associations. Membership of such an organization provides a resident with a ready infrastructure through which possible complaints can be mobilized and amplified. When the activities require some form of political participation, neighbourhood-oriented organizations can play an especially important role as intermediaries in the political system. Organizational clout can be used to back up specific demands, assemble them, and voice them in terms of the interests of the neighbourhood. Such organizations may draw people into political participation by asking them to become politically active (Olsen 1972), and in this case such activities will very often have to do something with problems in the neighbourhood.

The same logic of distinguishing between formal and informal connections can also be applied to connections outside the neighbourhood. Guest and Oropesa point out that the existence of within-neighbourhood ties is a necessary but in itself insufficient condition for becoming politically active. In their perspective relationships within the neighbourhood primarily heighten someone's willingness to defend the neighbourhood's interest, while the links that cross the neighbourhood's borders are necessary because they make it easier to establish a link with the formal political system (Guest and Oropesa 1986). In more general terms, connections outside the neighbourhood are simply a good indicator of a person's social network, and as these networks become larger and more diverse, they provide a more important resource that a resident can draw upon for support, as well as in the case of experiencing a neighbourhood problem.

Turning to associational involvement outside the neighbourhood, the first reason why even organizational engagement *outside* the neighbourhood may be relevant for problems *inside* it derives from the Tocquevillian argument that such organizations function as schools of democracy and contribute to a person's political skills (Verba, Schlozman, and Brady 1995: 309–13). Members will have to organize something from time to time or might attend board meetings, and become more familiar with the political system because their organization may have had encounters with politics. Secondly, they extend an individual's social network and thus increase their ability to ask another organizational member for help (Verba, Schlozman, and Brady 1995: 148–9).

Most of the empirical evidence comes from US studies in urban, and often deprived, neighbourhoods. Guest and Oropesa (1986) find empirical support for their 'balanced perspective' thesis (a mix of contacts inside and outside the neighbourhood yields the highest number of contacts), but do not control for formal sources of structural social capital such as memberships of community associations. In a more recent analysis, Guest (2000) however finds a positive effect of memberships of instrumental and expressive associations both inside and outside the neighbourhood, unfortunately without controlling for a host of individual resources. In a study of residents in housing managed by Community Development Corporations the authors find correlations between informal governance and having acquaintances in the building, church membership, and membership in non-local organizations (De Souza Briggs, Mueller, and Sullivan 1997: 230). Bolland and McCallum (2002) measure a positive effect of neighbourliness on both informal governance and contacts with the city, using appropriate individual level controls, but omit a possible effect of organizational membership. Lelieveldt (2004) examines the relative influence of neighbourliness, trust, and sense of duty in three deprived neighbourhoods in the Netherlands and pinpoints the first as the most important one for predicting levels of informal governance and tackling neighbourhood problems. Oliver finds a positive effect of personal network size and recruitment for political action on a composite measure of civic participation (Oliver 2001: 32–67), as does Marshall in an analysis of the determinants of residential involvement in school improvement and crime fighting (Marschall 2004), in which she also finds a positive effect of being recruited into a formal organization. In a problem-oriented study of the relative impact of formal and informal connections inside and outside the neighbourhood, formal membership of neighbourhood-oriented associations turns out to be the only social capital variable that matters, while social networks within the neighbourhood and membership of other types of organizations do not have an impact.

There is one notable exception to the general finding that getting along very well with the neighbours is always conducive to problem solving. If a resident suffers a problem that is being caused by a fellow resident but at the same time has an instrumental or even emotional relationship with that person, the potential loss of the benefits of this relationship must be weighed against the benefits of addressing the problem. This may prompt residents to carefully weigh the costs and benefits of addressing a problem and to look for strategies that remove the problem without harming the relationship. In a careful study of the conflicts between neighbours about noise, Oude Vrielink shows that such people are much more hesitant about approaching their neighbours directly and rather resort to involving a third party such as the housing agency or police (Oude Vrielink 2001). Her findings are consistent with Crenson's finding that especially relatively isolated people do not hesitate to approach their neighbours directly to address these problems and thus resort to informal governance to settle a dispute (Crenson 1983: 191).

Evidence about a direct effect of *attitudinal forms* of social capital on problem-solving activities is somewhat more limited compared to the quite extensive findings on the impact of structural social capital that was reviewed above. Theoretically the impact of trust on neighbourhood-oriented forms of participation would derive from the expectation of reciprocity that the concept carries with it. Neighbourhood-oriented forms of participation very often constitute the provision of public goods, because other residents enjoy the fruits of one's efforts as well. Trust will help to overcome collective action dilemmas because it makes people more willing to contribute to the quality of the neighbourhood when they are confident that others will take their turn as well (Putnam 1993: 167–76; Ostrom and Ahn 2001).

At the same time one should not overestimate the importance of trust as a direct stimulant of such activities, especially when it comes to relatively simple and individual acts like picking up an empty can or contacting a municipal department to inform them about a vandalized lamp-post. When solving a problem requires nothing more than a phone call, the costs of providing such a public good are very small. Because the individual benefits of such problems being solved are relatively large, individuals can be expected to make the investment purely on the basis of individual motives. The fact that others benefit as well is simply a positive externality and expectations of reciprocity do not have to be that important.

Some people might engage in problem solving without any expectation about the willingness of fellow residents to do so, and this also reminds us of the importance of norms as the other type of attitudinal social capital that may act as a driving force and may function irrespective of the extent to which other residents feel such obligations. The pro-social behaviour of such residents is often accompanied by a sense of disillusionment about their fellow residents. 'The people who are willing to absorb these costs are often precisely those who have less respect and liking for their neighbors and more of a belief that if they want something done, they will have to do it themselves' (Oliver 1984: 609). Oliver's findings are concurrent with Crenson's observations of what he calls 'neighborhood misfits', who 'may sense an especially sharp mismatch between these local disadvantages and the standards of comfort and convenience that their privileges have led them to expect' (Crenson 1983: 191). The conclusion should be that despite the absence of trust and neighbourly connections certain people would still engage in problem-solving behaviour, because internalized norms simply tell them to do so. Especially in those cases where fellow residents are the source of a problem and may even terrorize the neighbourhood, such 'misfits' are essential to the restoration of public order (Crenson 1983: 301; Ross, Mirowsky, and Pribesh 2001: 584).

What conclusions can we draw thus far from the inventory of the relationship between social capital, neighbourhood problems, and neighbourhood-oriented forms of participation? A first conclusion is that attitudinal forms of social capital exert an important influence upon (perceptions of) neighbourhood problems. These attitudinal aspects take precedence over the existence of local social networks per se, although these can help in building the required levels of collective efficacy. Secondly, objective neighbourhood conditions can prevent neighbourhoods from building sufficient levels of social capital because social interaction is seriously hampered by fear of crime and victimization. Thirdly, when it comes to participation, structural forms of social capital, most notably in the form of membership of neighbourhood-based associations, are an important determinant of problem-solving behaviour, followed by informal connections within the neighbourhood and recruitment by neighbours for specific types of action. Fourthly, norms are another factor that may drive participation and may account for activities from some people that may be relatively isolated. It is important to note that these effects hold when controlling for a range of well-known background variables such as homeownership, socio-economic status, length of residence, and age.

5. Urban Policies and Social Capital

Given the fact that social capital has a substantial impact on the quality of neighbourhoods, it does not come as a surprise that in the mid-1990s the concept (re)gained immense popularity among policy makers in the context of community development and urban policies. Although most of the insights of social capital research had been around for quite a while, the concept provided policy makers with new arguments and a catchy term to call attention to the important role of 'soft' variables such as networks and trust, if only because by using the noun 'capital' it seemed to bring the social dimension on an equal footing with human, physical, and economic capital.

Putnam himself has been a key player in advancing this cause by charting the decline of social capital in the United States and actively promoting 'the revival of community' in subsequent publications (Putnam 2000; Putnam and Feldstein 2003). *Bowling Alone*, his analysis of the causes and consequences of the decline in the US, concludes with an 'agenda for social capitalists' in which one of the recommendations consists of 'spending more time connecting with our neighbors' and to design neighbourhoods in ways that encourage residents to connect with each other (Putnam 2000: 408).

Given the fact that Putnam regularly briefed the White House on the importance of social capital (Barber 2001), it does not come as a surprise that President Clinton's National Urban Policy Report cited his work and pointed to the 'widespread breakdown of trust and reciprocity among major segments of society [as] a fundamental threat to our cherished democracy' (US Department of Housing and Urban Development 1995: 19).

Playing the social capital card was not only attractive in the light of these findings but also fitted Clinton and Gore's *Reinventing Government* agenda perfectly, as it stressed the limited capacity of Washington and other public authorities to take care of these problems. The following quotation is a typical example of the way policy makers used insights from social capital research to shift part of the responsibility back to citizens and civil society:

> In healthy communities, residents identify and address problems, share information, reinforce social norms, work toward common goals, acquire needed support through formal and informal mechanisms, maintain and utilize resources and contacts from across their metropolitan areas, and promote productive lives for themselves and their families. Primary responsibility for creating these healthy communities lies with the individuals and families who live there and the local organizations that serve them. (US Department of Housing and Urban Development 1995: 54)

In the US these insights led the Clinton Administration to establish the Empowerment Zone/Enterprise Communities programme, which has since provided about 180 urban and rural zones with federal funding and tax breaks to revamp distressed urban and rural areas. The programme's main focus is clearly upon the comprehensive economic revitalization of those areas, with considerable attention being paid to involving all stakeholders in formulating and implementing the zone's strategic plans, something that turned out to be quite problematic when the programme entered its implementation phase (Gittell, Newman, and Pierre-Louis 2001).

The Bush administration seems to rely as much as the Clinton administration on civil society's capacity to address urban problems and created an office of Faith Based and Community Initiatives to 'energize civil society and rebuild social capital, particularly by uplifting small non-profit organizations, congregations and other faith-based institutions that are lonely outposts of energy, service, and vision in poor and declining neighborhoods and rural enclaves' (White House 2001). In the US at least, the social capital card has been mainly played to advance the role of what Douglas Rae so aptly has termed the *civic fauna* (Rae 2003: 141) in addressing urban problems, which is most notably witnessed by the sharp increase in the number of Community Development Corporations (CDC)—from a couple of hundred in the beginning of the 1970s to thousands at the end of the 1990s (DeFilippis 2001: 797) that have stepped in to deliver public services and housing in particular (Stoutland 2001). Instead of policies that directly seek to bring residents together using micro-level interventions to raise levels of social capital (see below), the stress is on indirect measures that seek to increase the stake of residents in their community. Indirect means to increase community involvement seem to be much more important such as stressing the importance of homeownership which 'translates into a greater concern for neighbourhood and surrounding communities' (Bush 2002: 4).

More explicit attention for the concept in relation to neighbourhoods can be found in the United Kingdom where the Prime Minister's Performance and Innovation Unit made a quite extensive study of the policy implications of social capital (Performance and Innovation Unit 2002). Home Secretary David Blunkett told the participants at one of PIU's social capital seminars that the government should help build social capital by 'creating a safe and secure environment, investing in communities and working in partnership with people' (Home Office 2002: 5). In the UK a special Neighbourhood Renewal Unit has translated this philosophy in the New Deal for Communities (NDC). In terms of the type of governance the NDC approach is similar to the Empowerment Zone philosophy, but its scope is somewhat broader. NDC does not only focus upon economic revitalization but also addresses poor health, crime, and physical deterioration.

Other European countries have addressed their urban problems in similar ways by establishing even more comprehensive revitalization programmes, be it the French *Politique de la Ville*, the German *Soziale Stadt* programme, the Danish *Kvarterlöft* scheme or the Dutch *Grotestedenbeleid* (Deutsches Institut für Urbanistik 2003; Dutch Urban Expert Centre 2004). It will come as no surprise that also in these countries such programmes—in a similar vein as the federal policies of the US government—embrace *governance* as the new approach to making policies and stress the importance of empowering citizens, establishing partnerships between the public and private sector, and monitoring the effectiveness of interventions (Andersen and Van Kempen 2003: 83). In such an approach citizens themselves carry primary responsibility for the well-being of their neighbourhood, and need to be actively engaged, something that is witnessed by the surging popularity of the concept of *active citizenship* that is promoted so actively nowadays.

But in addition to the increasing involvement (on paper at least) of residents in decision making and taking a more bottom-up approach to increase bureaucratic responsiveness, these countries offer some examples of policies that directly seek to manipulate social capital variables either as an end in itself or as a way to make neighbourhoods more liveable. Thus, within the framework of Dutch urban policies the 'It's your neighbourhood's turn' programme encouraged residents of thirty of the worst-off neighbourhoods to submit plans that would 'increase participation and social cohesion between different groups in the neighbourhood' (Tweede Kamer 2001: 3). Other attempts at directly influencing levels of social capital include door-knocking strategies that bring residents of the same apartment block in touch with each other, in the expectation that the increased familiarity will also increase levels of mutual respect and tolerance or address any existing problems. Also Cybercafes have been established that not only seek to diminish the digital divide by teaching computer skills to residents of impoverished neighbourhoods but also would strengthen a sense of community in the neighbourhood (Staatscourant 2000). Finally, at the local level a couple of cities have experimented with letting residents formulate and vote upon rules of public conduct that would apply to their neighbourhood or city, in the expectation that the endeavour itself reminds people of things they can and cannot do.[4]

At first sight these policy measures that directly target the factors that enable 'residents to help themselves' would seem to be ideal in the light of governments' desires to shift the responsibility partly back to citizens. However, given the content, the limited scale and the short time span of the majority of these programmes, considerable doubt may be cast on their effectiveness. 'In fact community interventions seem to fail the worst when the major thrust is to change individual behaviors by promoting friendship among neighbors.... Where local friendship ties are strong, they result not from government intervention but from natural processes induced over time by factors such as residential stability and the density of families with children' (Sampson 2001: 102). Indeed there may be an unbridgeable gap between empirical findings about the relevance of trust, norms, and networks and attempts to affect these stocks of social capital through governmental policies. In that sense more indirect policies that seek to foster conditions that encourage the formation of social capital such as homeownership, keeping areas safe and clean and getting people back to work, might in the end be more effective. It is indeed very telling that the Korenaardwarsstraat is not only the world's first greeting zone, but has ever since remained the *only* street that is adorned with these signs, a fate that this programme shares with so many other programmes that were initiated with much enthusiasm but quickly lose their momentum.

More fundamental criticisms against the new urban policies and its use of social capital as a strategy to shift back responsibilities into the neighbourhood concern its limited scope both in a territorial and a substantive sense. Area-based policies have been characterized as an 'ameliorative, not a transforming, problem solving strategy' (Halpern 1995: 221) exactly because 'commonly the neighbourhood is neither the site of the causes of its problems nor the site of the power needed to address them' (Fisher 1994: 224). In addition two other critics note that the recent wave of urban policies has led to a deliberate 'avoidance of adversarial movements' (Mayer 2003: 118) in favour of 'consensus organizing' and 'nonconfrontational' methods (DeFilippis 2001: 788).

It is remarkable indeed that somewhere along the road power, money and politics seem to have fallen off the bandwagon and have been replaced by a discourse in which every resident is a social capitalist. Still, although it may be true that the 'social capital focus does not help in understanding the source and dynamic of the new forms of incivility and conflict resulting from contemporary economic and political restructuring' (Mayer 2003: 123), residents would probably still prefer policies that seek to address concrete neighbourhood problems that may or (may not!) have been caused by these fundamental forces rather than principally oppose these and simply wait for better days ahead.

6. Conclusion

This chapter has shown that social capital in its different forms is related to (the perception of) neighbourhood problems and neighbourhood-oriented forms of participation. Specific data on neighbourhood-oriented forms of participation is still relatively rare, because the source of participatory activities is usually not included in action-oriented studies and many studies do not include a range of activities that fall under the heading of *informal governance*. Nevertheless, the available empirical studies clearly show that attitudinal types of social capital negatively affect the problems and problem perceptions while structural forms of social capital (local social networks and membership of neighbourhood-oriented associations) have a positive impact on participatory activities. Those latter results do fit the more general observations about the relationship between social capital and civic and political participation. In that sense one can conclude that the neighbourhood indeed may be considered a political entity in its own right (Crenson 1983), with mobilization mechanisms that are specifically tied to the place where those issues arise. Insights into these dynamics will of course be improved when we succeed in more precisely studying the dynamics of the evolution of problems and the growth or decline of levels of social capital as a possible consequence, but this is hardly unique for this specific topic.

What is essential, however, especially at the neighbourhood level is that there is a clear need to integrate studies that look at the activities of individual citizens with those studies that chart the behaviour of neighbourhood-oriented associations. While in the real world of neighbourhood politics there is a complex and dynamic interplay between the activities of individual residents and of all types of local organizations, most academic studies look either at the activities of individuals or at the fates and fortunes of those organizations that deal with such challenges. In fact, both individuals and organizations constitute important categories of political agency, and their behaviour should be studied together (Crenson 1983; Berry, Portney, and Thompson 1993; Warren 2001, for good examples). It is only through such a joint analysis that the real impact of neighbourhoods in politics can be assessed.

Notes

1. The author wishes to thank the Institute for Social and Economic Research and Policy (ISERP) at Columbia University, New York for hosting him as a visiting scholar in the Spring of 2004, and the Netherlands Organization for Scientific Research (NWO) for funding his stay there.
2. See <www.groetzone.nl>
3. Note that I will disregard the quite drastic and costly decision to get rid of possible problems by simply moving to another place. See (Lyons and Lowery 1986, 1989) for a model that includes exit as a possible option.
4. This is only a very small sample of the wealth of initiatives that have been proposed and implemented, often at the local level. See the websites of the German Urban Institute (<www.sozialestadt.de>), the Dutch Forum for democratic development (<www.forumdemocratie.nl>), and for the US the Fannie Mae Foundation's community development site (<www.knowledgeplex.org>) for extensive overviews of programmes that seek to raise levels of social capital and citizen involvement in neighbourhoods.

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CHAPTER 13

SOCIAL CAPITAL IN MULTICULTURAL SOCIETIES

MEINDERT FENNEMA
JEAN TILLIE[1]

1. Introduction

The idea of a multicultural society has many supporters and even more critics. Most of the academic discussion takes place at a philosophical level, either in terms of the embeddedness of human nature (Parekh 2000), the extension of human rights to cultural identity (Young 1990), or the intrinsic human need for recognition (Taylor 1994). Hence the debate on multicultural society has strong moral overtones and revolves around the practical possibilities and ethical desirability of having more than one culture in a polity. Most supporters of multiculturalism believe we have some moral obligation for the protection of minority cultures. This is so because in their view assimilation is an unethical option for immigrants in a host society. Alan Wolfe depicts assimilation as 'a form of symbolic violence' (Wolfe 2003). Critics, on the other hand, either see multiculturalism as a form of cultural relativism that flies in the face of the liberal theory of equality and universalism (Barry 2001), or see it as undermining national identity (Miller 1995). Neither supporters nor critics seem to be particularly interested in the practical issues of how liberal democracy works in a multicultural society. Yet it is the functioning of democracy that worries so many people who take issue with multiculturalism. We take the predicament of liberal democracy as a starting point for our chapter, which, although theoretical in its aim, uses empirical data collected for the case of Amsterdam to illustrate our theoretical model. In the near future we will be able to present data on more cities.[2]

In this contribution we start from the historical reality that large-scale immigration to Western Europe has created a series of ethnic minority groups alongside the dominant group in society. Hence West European societies have become multi-ethnic societies, and ethnic cleavages have become part and parcel of these societies. Thus the central question for political scientists is how these new cleavages affect the political landscape. For our analysis of multicultural societies we can borrow from a long-standing theoretical tradition which deals with social cleavages. In 1967, Seymour Lipset and Stein Rokkan published their study of party systems and voter alignments (Lipset and Rokkan 1967). They linked the development of party systems to a historical sequence of political conflicts (such as the French and industrial revolutions) and their resulting social cleavages, reaching the conclusion that both party systems and relevant voter alignments reflect (with few but significant exceptions) the social structure of a country as embodied by its cleavage structure. The most important of these cleavage structures were, in European systems, generally considered to be religion and social class (see, for example, Lijphart 1968, 1981; Bartolini and Mair 1990; Gallagher, Laver, and Mair 1992). Gallagher, Laver, and Mair summarize the cleavage concept as follows:

> First, a cleavage involves a *social division* that separates people who can be distinguished from one another in terms of key social characteristics such as occupation, status, religion, or ethnicity . . . Second, the groups involved in the division must be *conscious of their collective identity*—as workers or employers, for example—and willing to act on this basis . . . Third, a cleavage must be expressed in *organizational* terms. This is typically achieved as a result of the activities of a trade union, a church, a political party, or some other organization that gives formal institutional expression to the interests of those on one side of the division.
>
> (Gallagher, Laver, and Mair 1992: 90–1)

Implicitly, or explicitly, much of the cleavage literature takes the concept of civil society as a starting point and goes on to question the effects of 'broken' civil societies. In 1963, Gabriel Almond and Sidney Verba published their path-breaking study on the civic culture in five nations. They demonstrated a clear correlation between active engagement in voluntary associations and subjective political competence (Almond and Verba [1965] 1989). The Tocquevillean argument was corroborated:

> If the citizen is a member of some voluntary organization, he is involved in the broader social world but is less dependent upon and less controlled by his political system. The association of which he is a member can represent his needs and demands before the government. It would make the government more chary of engaging in activities that would harm the individual. (Almond and Verba [1965] 1989: 245)

Almond and Verba stress the fact that even in interest groups citizens must combine their own political demands with the demands of other citizens. By doing so, democratic citizens learn to overstep their own private interest in a very early stage of the political process (Almond and Verba [1965]1989: 215–16). Yet this neo-Tocquevillean approach, that has been revitalized by Robert Putnam (Putnam 1993, 2000) has never reflected upon the consequences of cultural cleavages for the theory of democracy. In societies where civil society is split along cultural or ethnic lines, the concepts of civic culture and civic community are not as straightforward as the neo-Tocquevilleans would have it. The same goes for those who have preferred the concept of social capital to that of civic culture and civic community. Studying social capital in societies where cultural cleavages exist (whether through religion or ethnicity) requires a rethinking of its characteristics. In the context of a divided society, for example, the distinction between *bridging* and *bonding* social capital becomes particularly relevant (although we prefer a slightly different conceptualization, see below). The main purpose of this chapter is to elaborate on the theoretical consequences of linking the cleavage concept to the concepts of civic community and social capital in democratic societies. What, then, can the concept of social capital contribute to our understanding of multicultural societies and in particular to the functioning of the democratic process in these societies?

In multicultural societies social capital can be studied at the individual level but also at the ethnic group level. We first discuss trust as a central concept in the social capital theory, but we immediately link the concept of trust to that of social networks. Section 2 discusses social capital at the individual level in combination with social capital at the group level, whereas section 3 concentrates more on the ethnic group level. In section 4 we discuss the effects of social capital on the functioning of democracy in a multicultural society. We then give particular consideration to the political integration of ethnic groups. As an example we present empirical data on the relationship between social capital at the individual and ethnic group level and the political integration of ethnic groups in the city of Amsterdam. With these data we mean to show that our theoretical exercise has empirical relevance.

2. Social Capital in a Multicultural Democratic Society

Embedded Trust

The concept of social capital refers to surplus capacity. Social capital allows someone to do what they otherwise would not be able to do. According to Lin (1999) social capital can be defined as 'resources embedded in a social structure which are accessed and/or mobilized in purposive actions' (Lin 1999: 35). Flap (1999) has operationalized the concept of social capital in terms of network size, the nature of ties, and the resources possessed by those in the network. Both Lin and Flap tend to define social capital from the agent's perspective. They situate the concept at the individual level. Social capital, however, can also be defined at the group level, where it refers to a capacity to obtain collective goals through collaboration. Social capital at the group level is a way of overcoming the collective action dilemma.

All theorists of social capital seem to share the conviction that the concept consists of two related, but analytically separable, elements: structure and content. The structural element is often called association and is referred to as x's network or the network of X, where x refers to an actor and X to a set of actors. The content is referred to as trust or loyalty and is often referred to as an attitude towards x (trust) or the attitude of all members of X towards X (loyalty). The concept of social capital can be visualized in a graph consisting of points and lines between these points. It is, therefore, redundant to speak of social capital in terms of social networks, on the one hand, and trust on the other, as if trust were an attribute of actors independent from the network structure. It is not: trust is a relational concept, involving at least two agents. People do not trust people *as such* but specific persons or specific groups or institutions (which in the end are also a group of people). Thus we should not ask people whether they trust people in general but whether they trust people from their own ethnic group or other ethnic groups.[3] Cleavages point to the embeddedness of trust.

Weak and Strong Ties

When we discuss the social capital of migrants, a relevant distinction is that of bonding versus bridging social capital. According to Robert Putnam (Putnam 2000) bonding social capital refers to networks between persons who are socially alike ('people like you'), whereas bridging social capital refers to networks that are socially different ('people not like you'). Putnam himself assumes that ethnic minorities tend to have more bonding social capital, whereas the white middle class has more bridging social capital. The defining feature of bonding capital lies, according to Putnam, in the sociological characteristics of two interlocked persons: are they similar or alike? The problem with this distinction, however attractive, lies in the relative character of the concept of similarity: similar in what respect? Two MPs are similar as members of parliament, but one could be a liberal and the other a conservative. Two Sikhs are ethnically similar, but one could be a university professor, the other a janitor. As Putnam himself notes, most ties are bonding *and* bridging, depending on what relevant criteria are taken. Classifying a tie as bonding or bridging becomes, in this sense, arbitrary.

We prefer, therefore, a distinction that is not based on sociological similarity of persons, but on the characteristics of the ties that connect them. Two important tie characteristics are frequency and closeness. *Frequency* refers to the number of times one interacts with an actor in a network, whilst c*loseness* refers to how close an actor is to all other actors in the network. The idea of closeness is that an actor is central if he or she can quickly interact with all others. Pool and Kochen (1989) have shown that the *frequency* with which they see their regular acquaintances is much higher for blue-collar workers than for professionals. Blue-collar workers tend to have fewer but more frequent contacts. Professionals, on the other hand, tend to maintain many more ties that are less frequent. Granovetter (1973) calls the frequent ties *strong* and the less frequent ties *weak*. But he gives a more structural meaning to the distinction between strong and weak ties by arguing that the chances of Distance-two contacts overlapping are far greater in the case of strong ties than in the case of weak ties.[4] In other words, blue-collar workers tend to maintain ties with people who tend to also have ties amongst themselves. The best example of this is, of course, a family network. Thus there is a greater likelihood that the actual Distance-two neighbourhood will be much smaller than its maximum size in the case of blue-collar workers than in the case of professionals. In other words, for blue-collar workers it is more common that the people with whom they are in contact also maintain similar contacts amongst themselves. Coleman (1988), who ascribed a positive function to this phenomenon, calls it 'network closure'. Closure creates communities, and transforms networks from mere communication structures to a structure of social control. In Coleman's own words:

> Closure of the social structure is important not only for the existence of effective norms but also for another form of social capital: the trustworthiness of social structures that allows the proliferation of obligations and expectations. Yet, in a structure without closure, it can be effectively sanctioned, if at all, only by the person to whom the obligation is owed. Reputation cannot arise in an open structure, and collective sanctions that would ensure trustworthiness cannot be applied. Thus, we may say that closure creates trustworthiness in a social structure. (Coleman 1988: 107–8)

Generalized trust is a core ingredient for the proper working of democratic systems (Putnam 1993, 2000). Yet when a network with a high level of closure is at the same time isolated from the rest of society, the members of that network have no access to the resources of that society. It may well be that this situation, which used to be characteristic for blue-collar workers, and which induced Marx to exclaim that 'workers have no fatherland', now fits the reality of some ethnic communities. Indeed, it is plausible that members of a migrant ethnic group see other members of that group fairly frequently, but solely see members of that ethnic group and are thus isolated from mainstream society. This, of course, is not necessarily the case and it certainly has to be demonstrated. If, for example, the migrant community is socially diverse—which is the case with many refugee communities—then the strong intra-ethnic relations might give blue-collar refugees access to networks of weak ties which are maintained by the professionals in the migrant community. If these professionals *do* maintain relations with the mainstream society, then *all* members of the ethnic group can use 'weak ties'. Thus the individual blue-collar members of such an ethnic community have more social capital than they would have had without their ethnic network. Here we see that it is clearly wrong to assume, a priori, that ethnic communities create the 'wrong kind of social capital' as is often done (especially in the political debate). One does not

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fall into that trap if one realizes that in a healthy democratic society strong and weak ties are both necessary elements of a civic community.

In the end, the distinction between strong and weak ties, as defined by Granovetter, may be related to the distinction between bonding and bridging social capital, as defined by Putnam. This is so because the concept of similarity can also be defined in terms of the chances that two persons are acquainted. Granovetter and Putnam both tend to stress the importance of weak ties for the social efficacy of individuals, even though their definitions diverge. Putnam also tends to think that bridging ties create more civic community than bonding ties. Whether or not it is useful or harmful for a particular migrant group to have a great number of bonding ties depends on how such a cluster of ties is interlocked to the rest of society. Even if the cluster of strong ties maintained by an ethnic group is linked to the rest of society through weak ties by only a few members, those members with only strong ties can still profit from these weak ties. In this way the overall network structure partly determines the meaning and working of particular (ethnic) clusters.

Horizontal and Vertical Ties: Civic Ethnic Elites

So far, we have assumed the ties to be *horizontal*, i.e. to be relations between actors that are autonomous and more or less equal. In reality, of course, many ties are not between equals. Such vertical ties tend to be found more in organizations than in loose networks, since vertical ties are more difficult to maintain voluntarily. Few people voluntarily sustain vertical relationships, except perhaps for short-term strategic reasons.

In modern democracies we find combinations of horizontal and vertical ties at all levels of society. Indeed, it seems characteristic of political elites in democratic governance that they combine the two types: a large network of horizontal contacts relates the political leadership to the cultural and economic elites, while a large network of vertical contacts relates the members of the political elite to their constituency. We assume that the vertical relations tend to be more institutionalized than the horizontal, since they tend to be affiliation networks rather than informal ones.

Interestingly, however, many of the horizontal relations of the civic leaders' network are also affiliation networks. The members meet each other because of the institutional positions they maintain in different organizations. They function in a power structure that takes the form of a horizontal community of civic elite persons and hierarchical structures of organizations that are often ideologically or ethnically determined. A *well-connected* civic elite is defined here as a Distance-two network of elite persons, where ties are predominantly horizontal. The distance between two randomly selected elite persons in a well-connected civic elite is either 'one' or 'two'. That is, each pair of members is either directly adjacent or has at least one common acquaintance.

The total networks of these elite persons are potentially very large because most of them have professional occupations and, as a result, tend to have a very high number of acquaintance relationships. Members of a well-connected civic elite network meet in advisory committees of the government, in the board of charity organizations or in expert meetings. But there are other, more informal, occasions as well. Members of the civic elite meet in sports clubs, cultural manifestations, social clubs, and youth organizations.

Not all acquaintances of elite persons belong to the well-connected civic elite. Most of the Distance-one and Distance-two relations may well be vertical and run through institutions: a manager of a firm will be adjacent to many of his white-collar subalterns; a university professor will know many of his students by name; a politician will know many active members of his party; and an ethnic leader will know many volunteers in his community.

If the elite of an ethnic community is well connected with the civic elite of the mainstream civil society, then such an integrated elite may provide access to the networks of weak ties. In this case the ethnic community does have weak ties as well as strong, even though it seems as though each individual member of the rank and file only has strong ties within the ethnic community. This is a very important conclusion for liberal democrats who fear multiculturalism. It means that in a multi-ethnic society representative democracy may work much better than one would expect on the basis of traditional political theory (Lijphart 1968). We have shown elsewhere (Fennema and Tillie 2001) that members of an ethnic community which is internally well organized, with an ethnic elite that is well integrated into the local political elite, tend to participate more in local politics than the members of a loosely organized ethnic community, even though the latter may have, individually, more weak ties than the former. Ethnic communities may contribute to the well functioning of a democratic polity rather than hamper it. Figure 13.1 summarizes the implied network structure in a democratic multi-ethnic society.

In this figure, civil society consists of three ethnic communities: one dominant community and two minority communities. Trust in these communities is embedded, that is, people trust members of their own community more than those outside the ethnic group. Members of these ethnic

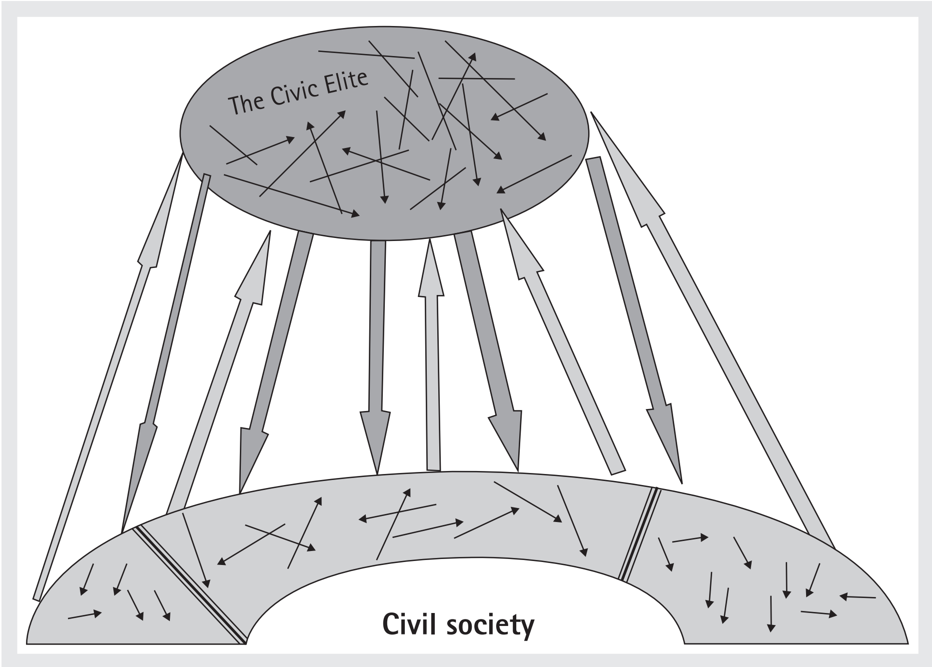

Fig. 13.1. A well-connected civic elite in a multi-ethnic society

communities are linked to each other through both strong and weak ties, which enable communication within the community, and also between members of the same ethnic community who differ in other sociological characteristics. Communication is also facilitated through the use of (ethnic) mass media. The civic elites are connected through vertical ties to their own community and through horizontal ties to the civic elites of the host society and of other ethnic communities.

3. Social Capital at the Group Level: The Strength of Ethnic Civic Community

To measure the strength of ethnic community we need a number of concepts that are in line with the theoretical framework we have presented so far. We therefore first define, at the group level, the concepts of *ethnic* *organization,* of *organizational density* in an ethnic group, of the *filling* of the ethnic organizations, and of *institutional completeness* of the ethnic community. Secondly we define the concept of *bonding and bridging* organizations, the *network* of ethnic organizations, the *network density*, and the *network cohesion*. Thirdly, at the elite level we discuss the strength and cohesion of the ethnic elite, and their integration into the host society. Fourthly we determine the availability of ethnic mass media in the community by measuring the circulation of ethnic newspapers and the diffusion of ethnic radio and TV programmes. Finally, at the individual level, we discuss organizational membership and the individual networks of ethnic citizens. We illustrate our discussion with data collected in Amsterdam between 1998 and 2006 (see Fennema 2004).

Ethnic Organizations

We define ethnic organizations as non-profit organizations with a formal structure as expressed in a governing board whose mission is to provide services, or collective goods, for the ethnic group. The organizational density of an ethnic group is the number of ethnic organizations per ethnic resident. In itself this is a very crude measure of ethnic community, because we do not know the number of ethnic residents who are either affiliated with an ethnic organization or are members of one. If there are many so-called 'paper' (or sleeping) ethnic organizations, then the organizational density is a poor expression of the degree of ethnic community. This may be the case if the (local) government subsidizes ethnic organizations. We should be aware of the possible bias this may create in the comparative study of ethnic communities. The concept and measurement of *organizational filling* compensates for such a bias. This is defined as the number of affiliates, or members of ethnic organizations, divided by the number of ethnic residents. Organizational filling is, however, difficult to measure as reliable and unbiased data are often lacking. Quite often the numbers are inflated to boost the representativeness and strength of an organization that seeks political access and grants.

Finally, institutional completeness refers to the diversity of the ethnic organizations. An ethnic community is institutionally complete if all the services which the members of the group require, and all collective goods, are provided by or through ethnic organizations. 'Institutional completeness would be at its extreme whenever the ethnic community could perform all the services required by its members' (Breton 1964). We assume institutional completeness to be higher if ethnic interest organizations exist alongside political organizations and ethnic identity organizations. We consider religious organizations as ethnic organizations if the religious activities are organized along ethnic lines.[5] The higher the institutional completeness of an ethnic community, the greater is its autonomy.

Networks of Ethnic Organizations

In the previous paragraph we introduced a number of concepts that can measure the strength of an ethnic community by looking at the number and kind of ethnic organizations, together with the number of ethnic residents with which they are affiliated, without considering the structural relations among them. In this section we elaborate some concepts that refer to the structure of ethnic organizations, both through interlocking directorates and overlapping memberships of the rank and file. We begin with the latter. Those ethnic residents who are members or affiliates of more than one ethnic organization create overlapping constituencies in the ethnic community. Organizations that tend to have constituencies that overlap with other organizations are bridging organizations, whilst organizations that tend to have exclusive constituencies are bonding organizations. Bridging organizations contribute to the cohesion within the ethnic community, bonding organizations to its fragmentation. Paxton (2002) has shown that bridging organizations contribute to the level of political participation, whereas bonding organizations do not.

But there is also another form of overlap that contributes to the strength of the ethnic community and this is overlapping board memberships of ethnic organizations. Persons that are simultaneously members of more than one board create interlocks among boards. These interlocking directorates contribute both to the cohesion of the ethnic elite and to the horizontal communication among ethnic organizations. The total number of ethnic organizations and overlapping board memberships create a network of interlocking directorates, which in itself is an indication of the amount of social capital of the ethnic community. The number of interlocking directorates as a fraction of the number of ethnic organizations is called the *mean degree*. A high mean degree indicates a high amount of horizontal communication among the organizations and—other things being equal—a high level of trust among the ethnic organizations.

Table 13.1. Degree of ethnic community of ethnic groups in Amsterdam (2002)

	Turks	Moroccans	Surinamese
Total population	34.850	56.755	71.430
Total number of organizations	233	190	493
Total number of overlapping board memberships (ties between organizations)	271	118	222
1. Organizational density[a]	0.007	0.003	0.007
2. Isolated organizations	38.2%	44.7%	55.0%
3. Mean degree[b]	1.16	0.62	0.45
4. Organizations in largest component	25.8%	26.8%	6.1%

[a] Calculated as total number of organizations / total population.

[b] Calculated as the total number of lines / total number of organizations.

Source: Tillie and Slijper 2004.

Another measure of social capital of the ethnic community is the cohesion of the network. The cohesion can be measured by the chance that two randomly chosen ethnic organizations are connected (*connectivity* of the network). It can also be measured by the mean distance of the organizations which form a component, that is, that are connected amongst each other. The first concept measures the (lack of) fragmentation in the network, whilst the second measures the communication efficiency of the network of connected organizations. If the connectivity of a network is high and the mean distance in the large component is low, the network has high communication efficiency. The denser and more connected the meeting network, the greater the communication efficiency of the ethnic elite, and the greater the strength and cohesion of the ethnic leaders (Fennema and Tillie 1999).

To illustrate our argument, we present in Table 13.1 an example of the use of the measures of ethnic community using data on organizations of Turks, Moroccans, and Surinamese in Amsterdam.

It is easy to see that the Turks and Surinamese are equally well organized when we look at just the organizational density.[6] However, when we look at the ties among the organizations, it becomes clear that the Turks are much better organized: the percentage of organizations completely isolated from the rest is lowest; there are more ties per organization (mean degree); and the percentage of organizations in the largest component (i.e.

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organizations connected by a path of subsequent ties) is, for Turks and Moroccans, substantially higher than for Surinamese. We may thus conclude that the Turks have a stronger ethnic community than the Moroccans, and, in turn, the Moroccans may well have a stronger community than the Surinamese.

The Role of Ethnic Mass Media

Ethnic mass media play a crucial role for the diffusion of political trust—or political diffidence. They are the main corridors of vertical communication, even though they also operate at a horizontal level. Ethnic newspapers and television support the structures of ethnic civic community and by doing so they create social capital at the group level. In a free society they not only guarantee freedom of expression, but also create a sense of belonging to a community. Reading a newspaper and knowing that fellow citizens read the same newspaper creates horizontal ties that are expressed not only in letters to the editor, but also in daily conversations. Alexis de Tocqueville in his *Democracy in America* already noted this importance of newspapers. He writes:

> When men are no longer bound among themselves in a solid and permanent manner, one cannot get many to act in common except by persuading each of them whose co-operation is necessary that his particular interest obliges him voluntarily to unite his efforts with the efforts of all the others. That can be done habitually and conveniently only with the aid of a newspaper; only a newspaper can come to deposit the same thought in a thousand minds at the same moment. … Newspapers … become more necessary as men are more equal and individualism more to be feared.
>
> (Tocqueville [1840] 2000: 493)

There are substantial differences in the number of ethnic newspapers that circulate in ethnic communities. Turks more often read a Turkish newspaper than Moroccans read a Moroccan newspaper, or Surinamese read a Surinamese newspaper (Fennema and Tillie 1999). These findings underline the difference in degree of ethnic community we observed in Table 13.1.

This concludes our discussion of the elements comprising ethnic civic communities. We now turn to the political effects of social capital in multicultural democratic society, that is, the relationship between ethnic civic community and the political integration of migrants.

4. Effects of Social Capital in Multicultural Democratic Society

Political Participation

Most studies of the effects of social capital in the field of migration and integration focus on the economic integration of immigrants (Tubergen 2004). Researchers have pointed to the opportunities for immigrants to share ethnic resources, thus affecting the opportunity to form an 'ethnic enclave' or 'ethnic labour market' (Wilson and Portes 1980; Portes and Bach 1985). Here we discuss the *political* integration of migrants. Citizens in a democracy can participate politically in various ways: they can contact a municipal councillor; demonstrate for or against a certain issue; vote in local or national elections; visit local neighbourhood meetings where local issues are addressed, or become active members of a political party or protest organization. In Amsterdam, immigrants have local voting rights (everybody who lives legally in the country for five years is eligible to vote in municipal elections), so one might say that all types of political participation are available to immigrants in Amsterdam. In our study we looked at the degree to which ethnic groups engage in different forms of political participation (Fennema and Tillie 1999; Tillie 2004). Among the activities we studied were: attendance at meetings where matters are discussed concerning one's local neighbourhood; active lobbying about issues referring to the neighbourhood or city; participation in so-called 'neighbourhood councils'; and the likelihood that one would, if invited, attend a public meeting concerning the neighbourhood. It appeared that Turks participated most, followed by Moroccans, Surinamese, and Antilleans.

We also have data on voting turnout at local elections. These figures are presented in Table 13.2, showing turnout for Turks, Moroccans, Surinamese, and Antilleans for four Amsterdam municipal elections (1994, 1998, 2002, and 2006).

In each year, turnout figures for Turks are highest, followed by Moroccans, except for 2002. In 2002, Surinamese and Antilleans participated more in local elections than Moroccans. A sharp decline in turnout figures can also be observed between 1994 and 2002: 67 per cent of the Turks voted in 1994, whereas only 28 per cent of them voted in 2002; comparable figures for Moroccans are 49 per cent (1994) and 22 per cent (2002). In 2006 these figures rise again

Table 13.2. Turnout at four Amsterdam municipal elections for four ethnic groups (%)

	Turnout			
	1994	1998	2002	2006
Turks	67	39	28	44
Moroccans	49	23	22	35
Surinamese/Antilleans[a]	30	21	26	24

[a] Due to data collection limitations we could not distinguish between Surinamese and Antilleans.

Source: 1994–2002: Tillie 1998; Michon and Tillie 2003.

(for Turks and Moroccans), although they are still lower than in 1994. The relative decline for Surinamese and Antilleans is lowest, but turnout figures were already low for these groups.

Elite Integration

An important element of our theoretical model is the relation between the leaders of the ethnic community and the local polity. We will therefore focus on the external relations of the leaders of an ethnic community. We assume that the political impact of social capital embedded in the ethnic community largely depends on the relations of these ethnic leaders with the political elite of the multi-ethnic society. If the leaders of an ethnic group have many contacts with the leaders of the dominant group, this indicates a high level of political integration of the ethnic elite; on the other hand, if they have hardly any such contacts, the ethnic leaders are not politically integrated. The ethnic group is then either mobilized, if the group shows a high level of political participation, or politically marginalized, if the group's political participation is at a low level. A mobilized ethnic elite constitutes a potential danger to the functioning of representative democracy, as the political leaders are not aware of the demands of an (ethnic) segment of civil society, or—even worse—if they deny access of these demands into the political decision-making structure. This may create intense—and even violent—political conflicts. Such conflicts will either lead to the political integration of the ethnic leaders into the political elite, or to a decline in the political participation, and the alienation of the ethnic group from the political institutions. The ethnic group thus becomes politically marginalized. This situation, however, is even more dangerous for the working of representative democracy, because such a marginalized group may give rise to quasi-spontaneous forms of social and political violence, as we have seen in the revolt of the ethnic youth in the French 'banlieues' in the fall of 2005. In general, the political elite is unprepared for this type of 'spontaneous' violence, because the political demands of the marginalized community have never entered into the political system. Elsewhere we presented the results of a survey among the political elites of the ethnic groups in four large cities in the Netherlands (Fennema et al. 2000). Respondents were asked to name five persons they would consult in (*a*) the case of an important career decision, (*b*) the choice of school for their children and (*c*) when looking for a new house. In each case they were asked to indicate the ethnicity of the five advisers. It appeared that Turkish leaders had substantially more Dutch advisers than did Moroccan and Surinamese leaders. Surinamese politicians, who represent the weakest ethnic community in Amsterdam, had the smallest number of Dutch advisers. Turks, who have the strongest civic community, also have leaders who are best integrated into the Dutch elite structure. Hence the ethnic community where strong ties dominate also has the highest percentage of weak ties at the elite level. These results run counter to the general idea among experts in Holland, who assume that the Surinamese elites, because they share their language and history with the Dutch, are better integrated into Dutch society.

We assume that social trust in ethnic communities will spill over into trust in local political institutions if community leaders are integrated in the political system. This may work from the bottom up as well as from the top down. In a *bottom-up process,* political trust will increase when members of the ethnic community can monitor their ethnic leaders by way of their reputation in the community. The higher the level of participation of ethnic group members in ethnic associations, and the higher the trust of the rank and file in their leaders, the higher the quality of multicultural democracy. We have not yet collected information on the trust that the rank and file of different ethnic groups in Amsterdam have in their own ethnic leaders, but we expect such trust to be highest among the Turks and lowest among the Surinamese. We do, however, have an additional argument that is supported by previous research. Lelieveldt (2000), who found that associations have very good access to the local government, suggests that they have much better access than individuals. Furthermore, he found a relation between network centrality of voluntary organizations and political participation. If this is true, then ethnic groups with many voluntary associations have better access to the local power structure than ethnic groups without such associations. This may increase the trust in political institutions among ethnic groups with a strong civic community.

In a top-down process, political trust will increase if the leaders are able to 'distribute' their trust in political institutions and their commitment to them through the network of interlocked ethnic associations. Those leaders who are great linkers themselves have more chance of doing this than leaders without this form of social capital. Of course, ethnic leaders will only do so if they consider political institutions efficient and fair. If the government has an open ear to the demands of ethnic groups, this will also increase ethnic leaders' political commitment to the political institutions. Good governance itself creates political trust among citizens (Levi 1998; Rothstein 1999), but it does so in a two-step flow of communication, first from the mass media to the opinion leaders, and subsequently from the opinion leaders to the population as a whole (Katz 1957). That is, without a positive attitude from ethnic opinion leaders towards local government, it is very difficult for the local politicians to enhance political trust among the ethnic rank and file.

5. Conclusions

Our study shows that differences in political participation between the largest ethnic minority groups can be explained by differences in social capital embedded in the different ethnic communities. These results are in line with the outcomes of other research on the relationship between civil society and the working of democracy. Van Deth (2000) has convincingly demonstrated that members of voluntary associations *do* have a more favourable attitude to democracy and show more political interest. For Belgium, Billiet and Cambré (1999) have found the same positive relationship, although it is much weaker than they had expected and also more differentiated. Interestingly, sports and youth organizations in Belgium did not seem to contribute to political trust and political interest. Marc Hooghe (1999) has shown, however, that the relationship between being a member of a Belgian voluntary association and political interest becomes stronger if past membership of voluntary associations is also taken into account. However, all these research findings were based on the measurement of trust, either through the well-known trust question from the World Values Study, or through the measurement of voluntary organization membership (also asked in survey questions). We have argued that to measure social capital it is much better to focus not only on organizational membership, but also on the relative number of voluntary organizations and the ties these organizations have amongst each other. Thus the measurement of the networks of migrant organizations gives a more detailed account of the organizational network of migrant communities. We thus have a fairly precise measure of the social capital of migrant communities. The question is whether these findings at the group level correspond with the measurement of social capital at the individual level. A first account of such research is provided by Tillie (2004) who studied the impact of individual social capital of migrants in Amsterdam on levels of political participation. Membership of ethnic or cross-ethnic organizations and membership of trade unions do indeed explain political participation at the individual level. Similar results can be found in Belgium, Denmark, and Germany (Berger, Galonski, and Koopmans 2004; Jacobs, Phalet, and Swyngedouw 2004; Togeby 2004). Furthermore, being a member of a social network in which people are socially active results in higher participation scores. Independent of one's own eventual membership of an organization, the activities of people in one's social surroundings influence one's degree of political participation (Tillie 2004).

The significance of social capital at the group level *and* at the individual level points to an interaction effect between individual social capital (individual networks) and group social capital (degree of ethnic civic community). The starting point for variation in the degree of political integration of immigrants is the individual networks of ethnic citizens. Through membership, an individual has access not only to the social capital of other members, but also to the social capital of the organization as such. Thus, members of an isolated organization have less social capital than members of connected organizations, since these organizations also have access to the social capital of the organizations with which they have contact. Along the same lines, members of organizations with few members have less social capital than members of larger organizations. These hypotheses point in the same direction as do the results of Pamela Paxton's work on social capital and democracy. She concludes that, as far as the effect of organizational membership on democracy is concerned, certain types of associations do better in promoting democracy. Well-connected associations 'had a strong *positive* influence on democracy, while isolated associations had a strong *negative* influence on democracy' (Paxton 2002: 272, emphasis in original).

All this has implications for the research on social capital in multicultural society. It seems that organizational membership per se is only a partial indicator of individual social capital. At least two additional indicators should be taken into account: the social network of the (ethnic) citizen and the social capital of the organization, as reflected in the connectivity and density of the (ethnic) community's organizational network. The connectivity and density of ethnic networks vary greatly, underlining the need to study those variables which determine the structure of ethnic organizational networks, if a better understanding is to be reached of the political integration of ethnic minorities. Ethnic cleavages, then, do not necessarily hamper political integration, as long as the ethnic communities are well integrated and have sufficient 'weak ties' to the dominant power structure. In this our analysis supports the theory of consociational democracy.

Notes

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2. In ten European cities, data are now collected and analysed.
3. We therefore question the validity of the results from the trust question in the World Values Survey, which states, 'Some people say that most people can be trusted, others say that you can't be too careful.' We do not believe that the answers to this question can be interpreted as social trust. Rather we would suggest being more specific and asking about the trust a respondent has in the Turks in Amsterdam, Berlin, and Brussels etc. If such a question is put to different ethnic groups, and to the Dutch, German, Wallonian, and Flemish populations, we have an indication of the relative amount of social trust within each ethnic community. But even assuming that such a measure of social trust is more accurate than the overgeneralized measure of trust of the World Values Survey, we still have to be aware that this 'embedded trust' is an aggregate measure of individual characteristics; it cannot be taken for granted that it also refers to a collective phenomenon (van Deth 2002).
4. In network analysis, a close friend is at Distance-one, whilst the friend of a friend is at Distance-two.

5. Of course there may be disagreements over this. Some scholars would consider religious organizations as a separate category. Others would like to consider some Muslim organizations as political organizations.
6. The filling has not been calculated here for lack of reliable data.

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PART III

ECONOMIC DEVELOPMENT

Introduction: Social Capital and Economic Development

Guglielmo Wolleb

The contributions in this section focus on the uneasy relationship between social capital and economics. The Nobel economists Arrow (1999) and Solow (1999) have both expressed serious doubts on the theoretical basis of the concept, criticizing particularly the use of the term 'capital'. But in spite of such authoritative doubts, social capital is being increasingly used as a concept in discussion of various issues, especially in development economics. These issues include disparities in growth between states and regions, the causes of persistent underdevelopment or slow take-off, and firm behaviour. Social capital is also used in the design of new types of economic policy. It has led economics to deal more explicitly with the social dimension of human action and its economic repercussions, which had been somewhat neglected in the dominant paradigm of the discipline. The concept is therefore proving very useful for interpretation and also a source of significant innovation.

The contributions collected here display the wide field of application of the concept and its explanatory power. Several common themes emerge and it is useful to review these in a cross-section analysis.

1. What Type of Social Capital do We Need?

National economic growth benefits from *generalized trust* in potential trade partners, which in turn is linked to confidence in public institutions. Citizens' perceptions that they live in a country where the state treats citizens equally, where justice is impartial and penalties for lawbreakers are effective, are elements that, in theory, facilitate the spread of trust in the widest sense. This helps the economy to function because it creates a framework of certainties regarding the availability of high-quality public goods and the behaviour of trade partners, reducing the risk of economic choices. So in the macroeconomic sphere, the relevant social capital is *linking* social capital, in the form of confidence in the correct and equitable functioning of institutions, and more generally the honesty of individual economic actors.

Local economic growth is supposed to benefit from both *bonding* and *bridging* social capital. Bonding social capital consists of the close ties in small cohesive communities. Opportunistic behaviour is very unlikely with this type of group, because the stronger is the cultural conditioning engendering cooperation between members, the easier it is to identify and punish deviation. In this context trust has an almost primitive connotation. But bonding social capital can also hinder economic development. In the first place, group interests may not coincide with overall community interests. Secondly, group cohesion may lead to closure to outside stimuli and conservative behaviour. Bridging social capital and weak ties allow group closure to be opened up to new relationships and knowledge and the wider dissemination of information. Trust in people is no longer a result of generational bonds, but comes to depend on actual knowledge of others, past experience, and the specific characteristics of the network. Levels and characteristics of bonding and bridging social capital can be analysed through the quantity and quality of relationships between economic subjects in both public and private sectors. Most studies of the role of bonding and bridging social capital have actually focused on the local level because it has proved to be a useful concept for explaining economic processes at community level.

National and local economic growth may also benefit from *individual* social capital. For individuals it is, however, difficult to establish a link between social capital, individual advantage, and collective advantage. Individuals use their personal endowment of social capital to their benefit, but there is no guarantee that individual gain coincides with collective gain. So it is difficult to ascribe economic growth to individual social capital. There is a slightly different situation where the individual owning social capital coincides with the owner of a firm. In this case, we can presume that sales and profit levels of such firms are positively correlated with national economic growth. This is not, of course, to exclude the possibility of collusion against social welfare which occurs in monopoly and oligopoly markets. The individual owning a firm may profitably exploit personal social capital in collaborating with other firms on multiple fronts: on the input market, in marketing, research, technological transfer, and training of the workforce. More generally, social capital plays a positive economic role when firms are able to pursue their interests more efficiently through collective rather than individual action. What counts for firms are especially the weak ties giving access to wide networks and trust based on reputation.

Separating these three types of social capital and types of trust is to a certain extent an artificial exercise, as in reality they interact significantly. Starting from the micro-level, the capacity of the firm to create networks depends on the characteristics of its local area and on the stock of bonding and bridging social capital in the community. The capacity of the local area to make efficacious use of its social capital depends on its ability to link social capital to the national context. In other words, firms, with reference to the local economy, and local economies, with reference to the nation, operate within a framework of rules, incentives, and ethical standards which govern and direct their actions. No agent operates in autonomy or without external shaping factors. For example, firms with more confidence that local and national authorities are able to enforce contracts and property rights tend to have a higher level of trust of firms with which they are in contact, and a greater tendency to create networks. Another example is that the potentially negative effects of some types of social capital at local level can be prevented if nationally there is an opportune system of rules and penalties governing the actions of local private and public actors.

2. Why Social Capital is Important in Economics

Generally speaking, social capital intervenes in the economy when the market fails. Its role is to remove the causes of market failure and allow trade which would otherwise not be able to take place. The most widely embracing theoretical basis for this is the theory-of transaction costs and incomplete contracts. This theory states that stipulating a contract involves costs, and that all contracts are necessarily incomplete. There is a trade-off between level of completion and cost of contracts. The more complete is a contract, the less risk it presents, but the more it costs. The less complete a contract is, the less it costs, but the more risk is present. So transactions may be hindered because contracts governing them involve excessive transaction costs or because they are too risky in the absence of contractual safeguards. Social capital plays a role in this trade-off by reducing the costs and risks of transactions, increasing the opportunities for trade and leading to greater economic efficiency.

The logic of this argument has general validity and applies to any kind of trade. It applies equally to the roles of linking social capital at national and local levels. Several contributions in this section illustrate the facilitating role of social capital in trade. Laura Foschi discusses the case of microcredit, where solidarity groups are a source of social capital which lowers information asymmetry and the risk of credit, thereby preventing, in some cases, market failures. Social capital counters information asymmetry through the horizontal relationships between group members which overcome the problem of hidden information and action and alleviate the constraint of imperfect execution.[1] Martin Raiser makes similar observations regarding firm cooperation. Firms belonging to a network are more careful to avoid free riding in order not to lose their reputation for reliability. This makes transactions less risky and leads firms to make bigger investments and take part in more trading.

A more circumscribed type of economic situation supplies another explanation of the economic importance of social capital. For the production of certain goods, different subjects need to coordinate their action, or act collectively. Here, it is cooperation, and not competition, that yields the best result. Collective action can be carried out by firms, institutions, different economic subjects, and combinations of local actors. The aim of collective action is usually the production of public goods which cannot be produced at all, or in sufficient quantity, by normal market functioning. In some cases, these goods have very high positive impact as they produce strong externalities. Collective action, of course, meets with various types of problems. The first is free riding, a widely recognized and analysed phenomenon. The second, less frequently discussed in the literature, is the difficulty of coordinating and aligning preferences. The hypothesis is that an adequate endowment of social capital should help to overcome both problems. Social capital reduces the risk of free riding by introducing an element of relationship, or a moral element, which discourages opportunism. In other words, it raises the monetary and non-monetary costs of defection. Social capital, as a network of relationships between individuals and institutions, contributes also to solving the problem of *coordination* in various ways. It encourages local actors to pool their skills and know-how, to identify the best joint course of action, to emphasize common long-term rather than individual short-term interests, and to adopt a less parochial perspective on economic development. Problems of free riding and of coordination related to the production of a collective good can be solved by using or producing another collective good, social capital.

The concept of social capital helps to explain the frequent success of collective action in the real world, which when analysed purely on the grounds of economic theory appears so difficult to achieve. As discussed by Michael

Woolcock and Elizabeth Radin in Chapter 15, new findings in different disciplines on the *nature* of social capital are shedding further light on the efficacy of social capital in solving problems of collective action. Recent work in neurology, evolutionary biology, psychology, and experimental economics shows that cooperative behaviour is a consequence not only of rational calculation or social relationships, but may well be due to neurological or biological factors too. In other words, humans are almost genetically programmed for cooperation. Human behaviour is intrinsically relational. The different manifestations of social capital, trust, the propensity towards cooperation, the fear of penalties, the acceptance of reciprocal norms and the desire for social recognition, are all effective motors of collective action because they are rooted in human nature.

Lastly, there are also several reasons why social capital is particularly effective in local development policy. The market failures which social capital helps to overcome are often a result of insufficient knowledge, inadequate information, or difficulty in calculating risk. Social capital is particularly effective in these areas at local level, where different agents of development may know and meet one another personally while taking part in various projects. This facilitates transmission of information, the socialization of knowledge and trust, and reciprocal monitoring. Social penalties are more efficacious at local level because the economic and social dimensions are closely linked. And the incidence of social capital in lowering transaction costs and risks is particularly noticeable at local level. The same is true of the role of social capital in producing local public goods. The cement of social capital is particularly effective in choice and production of public goods where subjects interact repeatedly, where they have problems in common, and when they have greater opportunity to compare points of view and overcome differences in preferences.

3. How the Influence of Social Capital is Channelled

The economic impact of social capital is often mediated by other variables, affected by contextual characteristics, and rendered more or less effective by a joint combination of factors. The impact often remains only potential; there is no guarantee that social capital will be exploited. A general propensity to cooperation is not automatically translated into collective action. There is often a gap between the endowment of social capital in society and its utilization for economic ends, which means that a coordinating subject has to intervene. This subject has to coordinate and organize the local community, be aware of central state and market opportunities and be able to exploit them, and also have agenda and decision-making powers.

In less developed countries, where the fabric of intermediate institutions tends to be weak, this role is played by local community leaders. In his study of Indian villages, Anirudh Krishna's chapter shows, for instance, that the positive impact of social capital crucially depends on the interface between the community and the outside world provided by young local leaders. In communities where there is a wide and established presence of such leaders, social capital has a significant impact on local economic performance. But where this presence is weaker and less frequent, social capital is much less effective. Similarly, in microfinance (see Foschi's chapter), traditional community social capital consisting of links between equals is not sufficient to explain the low rate of insolvency of microcredit. The vertical link between staff of lending banks and the borrower group is equally important. Pressure by bank staff on individual borrowers, on the group collectively responsible for group solvency, and on the secondary group, constitute a powerful incentive for respecting the contract. Here too, the decisive factor is represented by people, the bank staff, outside the local community, who act as both facilitators and monitors.

In developed countries, it is usually institutions that mediate between social capital and the economy. As discussed by Raiser in Chapter 18, in the transition countries of Eastern Europe, social capital, measured in civic engagement, has an economic impact, which improves the functioning of government. This occurs because good government makes decision-making processes more transparent and monitoring more effective. The impact of social capital on economic performance is always channelled through improvement in government functions. In the provinces of Italy, the different levels of association of firms are more closely correlated with the role of intermediate institutions than with social capital variables. Institutions have a key role; like social capital, they lower the risk of opportunistic behaviour and reduce coordination costs of collective action.

The causal relationship between social capital and institutions is placed in different perspectives in the literature. For some researchers, the efficiency of institutions depends on the endowment of social capital, which is thus the only independent variable. For others, it is vice versa the endowment of social capital or its productivity which depend on the efficiency of institutions. The contributions in this section mainly conclude that social capital and institutions are complementary. Alessandro Arrighetti, Gilberto Seravalli, and Guglielmo Wolleb in Chapter 19 maintain that there are no univocal causal relationships. In their model, the three variables of social capital, institutional activity, and historic memory of collective action are all mutually reinforcing elements in determining the propensity of firms in a local area to cooperate. Similarly, Raiser states that community social capital can be made stronger or more productive by efficient intermediate institutions providing a bridge between civil society and national institutions.

4. Can Social Capital be Produced by Policy?

Whether there are policies to produce social capital is a fundamental question. The contributions presented in this section find that such policies do exist. Raiser emphasizes the importance of equitable and efficient national policies in creating confidence in public institutions. Woolcock and Radin report on examples of policies for building social capital. Krishna, too, is optimistic on this score, and describes policies setting up networks and norms which continued to play a role once the programmes were completed. Arrighetti, Seravalli, and Wolleb develop a model showing an important element of intentionality in the 'institutional activity' variable. In their model, institutions in the *present* influence firms' collective action through initiatives which can break traditional models of behaviour. Institutions, therefore, are not only influenced by the existing social capital endowment, but also contribute to modifying and enriching it. Foschi explicitly identifies a dual role for social capital in microfinance: it is at the same time both a resource for action and a product of action.

Along with this optimistic view of the efficacy of policy, there is also deep awareness that the past is important, and in development pathways there is always a strong element of path dependency.

Raiser begins his chapter by citing a colleague's 1990 prediction on the chances of success for ex-Soviet and Eastern European countries in the transition to the free market and democracy. The colleague claimed that the most successful countries would be those that once belonged to the Holy Roman Empire, comprising those of the Hapsburg monarchy and the small German countries. All other countries would have much more difficulty. Revealingly, fifteen years of economic development has confirmed the prediction. Krishna's study shows that policy effectiveness depends on the historical characteristics of the village, rather than the intrinsic quality of the programme. In some villages every programme is successful, whilst in others every programme fails. Arrighetti, Seravalli, and Wolleb find that firms' accumulated cooperative experience contributes to explaining the current level of associational life. All authors maintain, therefore, that path dependency can be broken through specific policies, notwithstanding the strong resistance to change.

There is a final reason for enhancing the role of policy in the debate on social capital. It has been claimed that creation or destruction of social capital is a side-effect of policies implemented for other reasons. It is, therefore, important to revitalize the link between social capital and public policy. Policy can in fact enrich, amend, and direct an endowment of social capital according to a design. Social capital as an object of policy becomes a concept rich in practical consequences and not just an object of historical analysis.

5. Policies for Social Capital

The contributions comprising Part III suggest a wide range of possible policies for the exploitation and strengthening of social capital. Some policies are national in scope, as they are centrally designed and run and their effects are felt all over a country. They encourage a national context of confidence in the legal system and public institutions. This objective is functional to the creation of social capital because of the link between citizens' perception of living in a country where people are treated fairly and dishonesty is effectively punished, and the propensity they show to trust and collaborate in economic transactions. In other words, individuals tend to adapt their behaviour to socially recognized and institutionally supported models. This link is theoretically sound and empirically verified. Such policies include measures for strengthening the independence and quality of the legal and law enforcement systems, increasing the transparency and accountability of the public sector, strengthening the democratic control of the media, and introducing anti-corruption measures. The confidence in institutions engendered by this type of policy should translate into generalized or extended trust, although, as Raiser argues here, the link is not automatic and may take time to appear. Other centralized policies, at regional or national level, aim to regulate or direct the behaviour of economic subjects. Public institutions supply a framework of legislation, consisting not only of permits and restrictions, but also incentives and disincentives for various courses of action. This occurs clearly in local development policy, where actors make their choices within a system of rules laid down at a higher institutional level. The rules may play a crucial role in discouraging opportunistic behaviour locally, and may prevent the use of 'bad social capital'. They may help to create a balanced mix of the two types of social capital, bonding social capital which strengthens horizontal relationships within the community, and bridging social capital which crosses over community boundaries and creates vertical links with the outside.

There is another class of policies which has a specific local dimension; it is implemented by local institutions and has a localized impact. Some of these policies aim to strengthen the network between local institutions, as well as between local institutions and associations representing civil society or the private sector. Institutions used to dialogue and contact with local actors are also able to overcome excessively parochial viewpoints, and promote collective action and produce public goods. Other local programmes aim to widen the basis of economic development by facilitating local participation in strategic decisions, project implementation, and policy monitoring. This is generally undertaken by increasing democracy in decision-making processes. Measures of financial support for the creation of associations within civil society also have the aim of increasing local participation. In this case, the expected benefits are in terms of a greater civicness and engagement, as described by Putnam. Other complementary interventions facilitate the transmission of information, the sharing and reconstruction of know-how, and the making of local implicit knowledge. These policies are based on the assumption that many of the skills required for development can be found locally in the private sector, although they may be fragmentary or latent. Policies may supply incentives for information holders to make their knowledge accessible and exploitable for development strategies.[2] In all these cases, social capital has a dual relationship with policy: it is an input in that it affects its success, yet at the same time it is an output because policy also affects social capital. Finally, it should be stressed that the local dimension of these policies does not exclude either a regulating role, or even a direct role, of central institutions. All these policies are indeed implemented by systems of multilevel governance. In particular, a key function of central institutions is to compensate for a skills deficit in local communities by giving access to new knowledge and innovation, either directly or by extending the network of local actors.

The last class of policy concerns the private sector. Some intervention has the purely economic aim of creating or strengthening agglomerations of firms, in the belief that exceeding a critical threshold in the level of production in certain sectors or industrial chains leads to economic processes of cumulative growth. This type of policy consists of support measures for local production sectors, with the aim of vertically integrating the entire chain or supporting the creation of new firms that may be missing links at local level. There are also measures for strengthening the horizontal relationships between same-sector firms, usually small enterprises in an industrial district, which are based on a highly specialized division of production phases and high levels of contracting and subcontracting. Social capital, in this context of high density of trade, reduces the cost and the risks of transactions. Lastly, measures providing incentives for firms to join associations are also closely linked to social capital. Belonging to a common association of interests encourages the firm to behave in a trustworthy manner towards potential partners, and to trust in them in turn. An individual company is aware that belonging to an association makes its behaviour open to inspection and collective penalties more likely. Belonging to an association can, moreover, encourage transmission of information and uncover opportunities for business and collective action which may otherwise remain only potential.

As we saw above, in most cases development policies do not have enhancement of social capital as an explicit aim. Aims are usually primarily economic or social, and enriching the endowment of social capital is an often unstated secondary aim. This is true of microcredit policies discussed by Foschi, the *practices* illustrated by Woolcock and Radin, and the local development policy described by Domenico Cersosimo and Rosanna Nisticò. Micro-credit promotes entrepreneurship in poorer sections of the population by giving access to financial resources. But it does this by creating horizontal networks that aid communication between members of community, transmission of information, mutual trust, and joint responsibility towards creditors. The practices described by Woolcock and Radin have the aim of raising the quality of health and education provision through the Ubuntu Education Fund or fighting poverty in the Kecamatan Development Program, but they also aim to improve governance, increase human capital and allow the preference for collective action to emerge. The local development policies discussed by Cersosimo and Nisticò pursue objectives of economic and employment growth through very inclusive decision-making processes inspired by deliberative democracy.

6. The Contributions to Part III

Three of the chapters comprising Part III are theoretical, whilst the others are based on empirical research. In the opening chapter of the section (Chapter 14), Cersosimo and Nisticò describe the general theory underlying the concept of social capital in economics, using the theory of incomplete contracts and transaction costs. They claim that social capital may help overcome market failures and increase opportunities for trade by reducing the risk in transactions and increasing the benefits of non-opportunistic behaviour. They then examine the complementary relationship between institutions and social capital in determining economic efficiency, considering the various meanings of 'institution' in the literature. Lastly they look at the relevance of social capital for local development.

Woolcock and Radin's contribution (Chapter 15) is also theoretical and reviews recent scientific research on determinants of human behaviour. They focus on findings from neurology, evolutionary biology, psychology, social sciences, and experimental economics to claim that human behaviour is essentially based on relationships. This claim partially contrasts with rationalist hypotheses advanced by traditional economics. But it is coherent with the basic theory of social capital which sees trust and altruism as essential components of man's social interaction. This conclusion leads the authors to put forward several recommendations for development policy. In particular they claim that more importance should be attached to a particular type of discretional and relationship-based policy, which they call 'practice'.

Krishna's contribution (Chapter 16) is empirical and evaluates the role of social capital in differences in economic development in sixty villages in India. It uses indicators of social capital and economic performance specific to each local community. Krishna concludes that the social capital variable has explicative power for variations in development between local areas, but it becomes more efficacious in combination with agency variables. The key agency variable is a local leadership strong enough to exploit opportunities outside the immediate local context supplied by the state or by the world markets.

The chapter by Foschi (Chapter 17) looks at social capital and microcredit. She shows that successful microfinance is based on credit methods that use, direct, and enrich community social capital. The collateral is social and consists of both the horizontal relationships within borrower groups or communities and the vertical relationships between lender and borrower. Foschi notes, however, that this close link between microfinance and social capital is often only implicit and is not adequately considered in policy design.

Raiser (Chapter 18) reviews empirical research on social capital and economic growth in countries in the transition towards the free market and democracy. At the level of macroeconomics, growth differentials can be explained by different levels of civic engagement and confidence in institutions. But the author finds no clear correlation between generalized trust and economic performance. At a microeconomic level, Raiser finds a significant correlation between level of firm associationism and economic performance. Particularly important for firms are the weak ties and networks not inherited from previous regimes. Moreover, the mutual degree of trust of companies is correlated with the confidence that the firms have in the state to enforce respect of contracts and property rights.

Lastly, the work by Arrighetti, Seravalli, and Wolleb (Chapter 19) examines the local spread of company associations, which in Italy is a very uneven phenomenon. They find that the differences in levels of associationism are linked to the different endowments of social capital in the eighty-eight provinces but also depend to a great extent on the level of institutional activity and the accumulation of experience of cooperation between companies. Arrighetti, Seravalli, and Wolleb show, however, that whilst this is true of small enterprises, whose capacity for cooperation depends on the external context, it is not the case for large companies which have adequate internal administrative resources and will thus only take part in collective action on the basis of sectoral, or technological, variables.

Notes

1. A recent empirical analysis of the effects of social capital on financial development appears in Guiso, Sapienza, and Zingales (2004).
2. Local intervention often has the aim of maintaining the community identity in culture, values, and skills, where its existence is threatened by economic or demographic factors. But, like bad social capital, the improper use of local identity may also have negative effects in terms of resistance to change and to innovation. See Sen (2006).

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CHAPTER 14

SOCIAL CAPITAL IN ECONOMICS

DOMENICO CERSOSIMO
ROSANNA NISTICÒ

1. Introduction

Until twenty years ago the terms 'social capital' and 'local development' did not exist in economic literature. In the last two decades, however, both issues have become important not only in the academic world, but also in public policy programmes and debates. This new interest has been largely stimulated by the growing awareness that the standard theory of perfect competition under complete contracts is insufficient to accommodate a number of important economic phenomena. In particular, the observation and analysis of the limitations agents face in contracting has focused attention on the importance of the role played both by social relations in economic transactions, and by institutions and the characteristics of the context in which such transactions are embedded. Part of the debate on the importance of social capital, in economic transactions has concerned questions of local development, even if the relationship between these two phenomena has seldom been the primary focus of the analysis.[1]

This chapter aims to trace the essential link between institutions, social capital and local development from the perspective of economics following a similar approach to Coleman (1990). Our objective is not, however, to supply a review of the various theories on these questions, but rather to identify a common framework to assist analysis of the results obtained in these fields. Coleman defines social capital as a network of relations between agents. Social capital is a resource that is built up, reinforced, or destroyed by the actions of individuals; it can generate trust in economic and social relations. In Coleman's words (1990: 302), it is a resource 'lodged neither in individuals nor in physical implements of production, (but inherent) in the structure of relations between persons and among persons'.[2]

Coleman's emphasis on networks places the actions of individuals at the centre: these actions enhance or inhibit social capital through the adoption of strategies that reinforce (cooperative strategies) or impoverish (non-cooperative strategies) interpersonal relationships. In place of Putnam's causal and deterministic paradigm, Coleman offers an active one and its emphasis on rational actors allows him to integrate the sociological aspects of social capital with the analytical and theoretical concepts from political economics. This conception of social capital constructed through the strategic interaction of individuals opens up interesting prospects also in the normative sphere, with the possibility of public intervention to 'force' local development actors to establish networks of social relations and build up social capital in those areas where it is found to be lacking.

From an economic perspective, institutions and social capital are both factors that are able to influence transaction costs and thereby efficiency.[3] As North (1990: 5) wrote: 'institutions affect the performance of the economy by their effect on the costs of exchange and production. Together with the technology employed, they determine the transaction and transformation (production) costs that make up total costs.' On the other side, social capital also affects transaction costs, insofar as it reduces them by enhancing the level of trust between agents (Guiso, Sapienza, and Zingales 2004; Trigilia 2001). Nevertheless, institutions and social capital, seem to differ from each other in terms of how they work: the first operates directly by the rules that human beings devise; the latter affects the outcome of economic transactions by generating trust between agents. The second half of this statement begs two questions that are non-trivial from an economic perspective. First, and foremost, we need to ask why agents need trust when they undertake economic transactions. Second, we need to investigate how social capital is able to generate trust. In this essay we will try to provide a systematic answer to these questions and then we will examine the link between institutions, social capital, and local development.

The chapter proceeds as follows: section 2 discusses the role of social capital in economic transactions; in sections 3 and 4 we illustrate how cooperation in the economic domain can be endogenously generated by social capital; section 5 investigates the relationship between social capital and the different concepts of institutions proposed by economists; in section 6 we discuss the implications of social capital for local development; and conclusions follow in section 7.

2. When do We Need Social Capital?

Why is the network of social relations important for economic transactions? And why does the trust generated by social relations matter? The reason is that trust is 'a social lubricant which makes possible production and exchange' (Dasgupta 2000: 64): absence of trust signifies paralysis in many economic relations, whereas trust gives agents a chance to play the economic game.[4]

The role of catalyst that trust plays in transactions is closely linked to the nature of contracts. Part of the economics literature, which relies on the hypothesis that the parties can draw up cost-free 'complete contracts', ignores the role of trust altogether. A complete contract is a formal agreement in which all the economic aspects and the benefits that accrue to the parties are specified unambiguously and correctly *ex ante*; it implies that the actions of the parties concerned are observable and verifiable. When the theory is based on the hypothesis that contracts are complete, there is no role left for trust because each contracting party can observe the behaviour of the others, and this behaviour will be verified by an external third party (i.e. the courts). Failure to respect the contract, therefore, will be punished through an exogenous sanction.

In many actual situations, however, contracts are found to be incomplete because of transaction costs (Tirole 1988). It is now recognized that a number of these costs are incurred *ex ante*—that is to say before the transaction takes place, in particular, the costs of foreseeing all the possible circumstances the parties may have to face throughout the course of the transaction, and specifying how to deal with them in the contract. Nevertheless, other costs emerge *ex* *post*, that is to say after the transaction has taken place: the costs of monitoring, execution, and, where necessary, the costs of enforcing the contract.

Let us suppose for the sake of argument, that we are placed along an imaginary line that indicates the degree of contractual incompleteness. The further we go from the starting point that would correspond symbolically to a completed contract, the greater the degree of incompleteness. At a point quite near the baseline, the contracts are incomplete, but at the same time very detailed: by specifying as many of the situations that could occur during the course of the transaction as possible, the parties seek to approach a comprehensive contract. In this position, however, the *ex ante* transaction costs are very high and this could then lead to a situation where the overall costs of the transaction exceed the benefits. Consequently, the parties would find themselves at an impasse and the market transaction might not take place. When, on the other hand, we are at a point far from the baseline, the contracts are incomplete but 'light' and this implies that the *ex ante* transaction costs are low. Thus, the benefits may outweigh the costs, but an incomplete contract introduces a high risk of *ex post* opportunistic behaviour. Contractual voids cause uncertainty with regard to the division of the *ex post* surplus, and, more generally, with regard to how parties will react to events uncovered by the contract. Parties may not, therefore, feel sufficiently protected, fearing that the contract does not guarantee that the transaction will be conducted in the desired manner. The reaction to the contract's incompleteness could lead to inefficiencies and, in extreme cases, dissuade the parties from subscribing to the contract.[5] Again, we find ourselves at an impasse.

Economic transactions are also riddled with 'relational contracts', also known as 'informal contracts' because, unlike the contracts described above, they consist of implicit agreements between the parties, and the mechanism which supports them is based on the interest of each of the contracting parties to maintain his/her reputation (Baker, Gibbons, and Murphy 2002). Relational contracts are *a fortiori* incomplete since there is no formal undertaking upon which a third party such as a court can enforce them: on the contrary, contracting parties run the risk that the agreement may not be respected without any legal sanction for the deviant. The only deterrent against opportunistic behaviour here is the damage to the reputation of the party who reneges on the contract. If the transaction is repeated, and the information about the agent's behaviour spreads outside the game, fear of the reputational effects may foster cooperation. In fact, under these conditions the payoffs associated with the various decisions are different from those in the static game, and in some cases, for certain values of the parameters, are enough to make cooperation a beneficial strategy for both players (Fudenberg and Tirole 1991; Kreps and Wilson 1982).

Economic theory identifies hierarchical systems of governance as a possible solution to the problem of mutually advantageous transactions not taking place because of incomplete contracts. For example, vertical integration is a hierarchical system of governance that, by eliminating the problem of *ex post* bargaining between independent firms, allows us to avoid the inefficiencies linked to the fear of *ex post* opportunistic behaviour when contracts are incomplete (Klein, Crawford, and Alchian 1978). In many real situations, however, it is not possible to establish, formally, a hierarchical relationship between the parties, in which every higher level gives verifiable and complete orders to the level below.

Yet the theoretical considerations advanced so far seem to be overshadowed by a recognized fact: despite the difficulties encountered in economic negotiation, economic subjects do carry out arm's length contracting characterized by incomplete contracts, by the unpredictability of contingent events, and by the difficulty to control or specify, in a formal and unambiguous way, how agents should behave in every possible contingency. Does recognition of this fact indicate that, at the end of the day, *ex post* opportunism is not taken into consideration? Or do rational subjects take into consideration other institutional factors, apart from the safeguards ensured by a formal contract, which back up their conviction that there will be fair play? Put simply, what exactly overcomes the impasse?

Our attention should then focus on the identification of those factors that can generate trust between the parties. In other words, we must find out which institutional mechanisms allow agents to 'complete' contracts, or make cooperation a self-enforcing equilibrium, which needs no exogenous or formal punishment to ensure a cooperative outcome.

3. How does Social Capital Affect Economic Outcomes?

Social capital plays a crucial role in generating trust and supporting cooperative outcomes (Spagnolo 1999; Aoki 2001; Guiso, Sapienza, and Zingales 2004). Nevertheless, there appear to be relatively few contributions that examine, in a rigorous way, the mechanism through which social relations can generate a transfer of trust and facilitate cooperation in the economic sphere. Spagnolo (1999) develops a game theory model in which social relations influence the capacity of agents to cooperate in the workplace, as a result of the existence of a link between social and productive relations. Social relations between team members can be considered as repeated strategic interactions that tend to become linked to the production game. In that study, social capital represents the net gains that derive from cooperation in the social context, which is the difference between the expected gains from cooperation and the short-run gains from defecting in the social game. This difference generates a surplus of enforcing power of cooperative actions that can be transferred to the production domain if social relations are linked to work relations (for example, if the organization selects personnel from the same community, or if outside activities are organized to encourage social relations, such as clubs, work outings, sports facilities, and so on).[6] A mechanism of this kind could explain the rationale of particular strategies that certain firms actually use: one concrete example is the resources many large Japanese companies invest in recreational activities with the aim of stimulating social interaction between staff. Another example, often cited in the literature, is the strategy adopted by the successful Bangladeshi bank, Grameen Bank, that grants loans to groups of five people from the same village (Varian 1990; Besley and Coate 1995; Spagnolo 1999). In a wider context than work relationships, Aoki (2001) studies how the link between strategic interactions in the social and in the economic domain can determine, under specific conditions, a standard of cooperative behaviour, a community norm; this is endogenously sustained by the fear that defection from cooperation in the economic domain could lead to the loss of the benefits derived from social capital.[7] Developing the original ideas of Bourdieu (1986) and Coleman (1990), Aoki (2001: 209) defines social capital as 'the present value sum of future benefits, including intangible goods such as status, social approval, and emotional stability, that individual agents expect to derive from cooperative association with the community in the social exchange game. In order to derive returns from it, individuals must invest in it and maintain it through social exchange.'[8]

In a local context with a high level of social capital, people are more likely to trust each other because the interpersonal networks provide better opportunities to identify and punish deviants. In this sense, social capital can be seen as contributing to 'complete' formal contracts. Non-cooperative behaviour can lead to a loss of the benefits accruing to the individuals because, as part of a community, they have to evaluate not only the consequences of their actions in the current game, but also the effects of the outcome of that game on the related 'social game'.[9] Social capital, therefore, represents a factor that, by enhancing the degree of trust between subjects, complements (incomplete) contracts in generating expectations of cooperative behaviour in economic transactions. The mechanisms at work in the case of both formal and informal contracts, on the one hand, and social capital, on the other, are different but complementary: the former consists of a formal system of enforcement and the effects on an agent's reputation respectively, the latter concerns social penalties affecting 'linked games' being played out in the social domain.

So, following Aoki (2001), let us assume a given social ambit, A_s, within which a group of agents, N, operates. This group undertakes, at the same time, a different kind of transaction in a different domain, A_t. The importance of social capital lies in the fact that, if we consider ambit A_t in isolation, the cooperative behaviour of the N agents may not be self-enforceable; while if the same agents are simultaneously all involved in another game within a different ambit, which can generate a sufficiently large amount of social capital, the cooperative equilibrium within A_t can become enforceable. From one side, in fact, the fear of not being able to access social capital due to the fact that the relationships with other members of the community have been compromised, provides the incentive for agents to behave cooperatively in A_t. From the other side, the interest of members of the community to avoid opportunistic behaviour in A_t induces them to adopt social sanctions against the deviant in A_s.

Moreover, communities characterized by close-knit networks of social relationships can rely upon a number of shared moral values inherent in the community or inculcated through education. In this case, the mechanism that fosters cooperation could be of a different kind to those considered previously: it could consist in a loss of self-esteem or in the existence of a moral cost (Basili, Duranti, and Franzini 2004). Nevertheless, if one accepts a certain gap between self-interest and moral values, between what is right and what is in the agents' self interest, the community sanctioning mechanisms—the negative repercussions on linked transactions—could be reinforced by the moral cost of opportunistic behaviour. All this seems to make cooperation more likely in strategic interactions.

4. Social Capital and Economic Cooperation: The Aoki Model

In order to illustrate how the presence of social capital can support cooperation when agents are simultaneously involved in economic transactions and social relations outside the workplace, we shall present a model proposed by Aoki (2001: 47–9) but applied here to a typical case found in local development.[10] Let us assume there is a consortium of N firms that produces goods for an external purchaser, who rewards the consortium on the basis of the quality of the goods received. The consortium collects the products from the individual firms and delivers them to the purchaser. The firms are identical and are run by a single person. Each firm discounts the future with a factor $\delta < 1$ and has two choices: either produce the quality goods the buyer requires and, therefore, cooperate with the other firms, or choose not to cooperate by producing lower-quality goods.

As the quality increases so does the effort e that each firm must put in and, therefore, the overall cost of the supply, which we indicate by $C_i(e)$. When all the firms cooperate in meeting the supply, each single firm receives a benefit equal to B_i, on the basis of the payment the purchaser makes to the consortium; whereas for each firm that does not cooperate, the individual benefits decrease by d_i, because the purchaser pays less as the overall quality of the goods is lower.[11] Let us assume, moreover, that the consortium is unable, at a reasonable cost, to carry out reliable quality controls and, thereby, to identify and expel the cheat from the consortium. However, each firm has an incentive not to cooperate which is expressed with the condition $C_i > d_i$.

In Figure 14.1 we indicate effort level e on the x axis representing the effort that each firms dedicates to the production of goods, while we indicate the costs on the vertical axis expressed in euros. We represent the cost function with $C_i(e)$, which, for the sake of simplicity, we shall assume to be linear. As aforementioned, the higher the quality, the greater the effort needed to produce the good and therefore the production cost. In the same figure, the horizontal line d_i indicates the cost the cheating firm knowingly faces by not producing the required quality.

Let us assume, therefore, that the firm is located at any point to the right of $e_{1,}$ in correspondence with which $C_i\ (e) > d_i$ and the firm has an incentive to cheat because the cost of producing high quality is higher than the cost

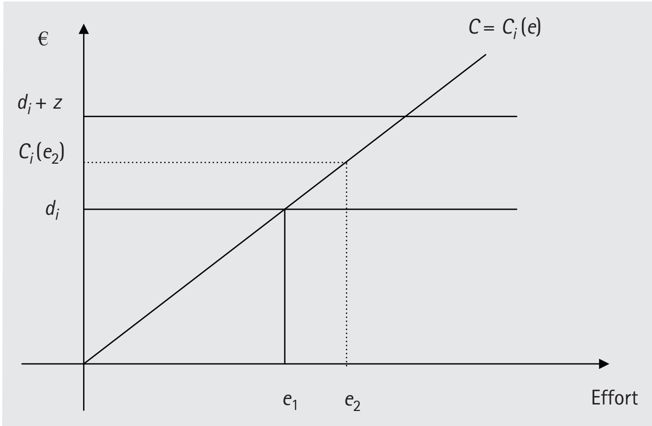

Fig. 14.1. Social capital and cooperation in economic domain

Note: d_i is the *benefit from production* an individual loses if he decides not to cooperate when the production game is played in isolation. z is the *social capital benefits* an individual loses if he decides not to cooperate when the production game is linked to the social game. So, $d_i + z$ is the total lost from reneging. If z is high enough, the total lost from reneging is higher than the cost (effort) of cooperation.

brought about by not cooperating. Let us assume, for example, that the effort required is e_2, in correspondence with which $C_i\ (e_2) > d_i$.

At the same time, members of the consortium play another game in the social domain, with relations that are different from the production ones. They could be involved in political work, they could invite each other to dinner or to parties, go on holiday together, share childcare arrangements and so on.[12] We shall assume that each individual can contribute to the production of these social goods at cost C_s and partake of the benefits but, at the beginning of each round of the game, anyone who behaves in a non-cooperative way can be ostracized by the other members of the consortium, i.e. excluded from the production and consumption of social goods.

Let the benefits that subjects obtain from the consumption of social goods be a non-decreasing function of the number $n \leq N$ of the subjects that contribute to supply them, $Bs\ (n)$.[13] If the social game is played separately from the production game and, if we assume at the outset that all the subjects cooperate with each other, each individual will be induced not to renege if the sum of net benefits in the future is greater than the cost of cooperation: $Cs < \delta\ [(Bs(N){-}Cs)]/1{-}\delta$, or if $Cs < \delta Bs(N)$. The right side of the inequality indicates the social capital that an individual can lose through being ostracized by the other members of the consortium, if he decides to renege. Thus, we can indicate the net benefits deriving from the social capital by $z = \delta\ Bs(N) - Cs$.

Now, let us assume that the two games are linked, and that, at the beginning of each round of the social game, the subjects have perfectly observed the outcome of the work game. Moreover, by playing both games repeatedly, the subjects can coordinate their strategies at any time on the basis of the results of the previous round. Let us assume, therefore, that each firm believes that all the other members of the consortium have played, and will play in the future the following combination of strategies: (a) each subject avoids cooperation in the work game and does not take part in the social game, if he has not cooperated in the previous rounds or has been excluded from the social game; and (b) the subjects exclude every member of the consortium who has cheated in the work game from the possibility of participating in the social benefits at any time in the future.

Given this combination of strategies, could it be worthwhile for a person who has always cooperated in the past to renege in the current round?[14]

The advantages of reneging lie in the savings in the cost of cooperation that, given the link between the productive and the social sphere, is now given by the sum of the cost of producing high-quality goods and social goods; while the costs are represented by the loss of benefits from cooperation in the productive and social game. In formal terms, the incentive for a subject not to renege is $Ci + Cs < \delta Bs(\mathrm{N}) + di$, or $Ci - di < z$.

Consequently, even if the left side of last inequality would be positive—hence the subject has an incentive, as we know, to renege in the productive sphere when the game is played in isolation—by tying the work game to the social game, the incentive-compatible constraint that needs to be satisfied to ensure cooperation can still be met if z is large enough, i.e. if the net benefits deriving from the social capital are sufficiently great.[15]

We can illustrate this result by tracing, in Figure 14.1, a straight line which is higher by z with respect to the previous line indicating the firm's cost of not cooperate in production game, in correspondence with $z + di$. The value of z may be great enough to make the level of effort required for the production of the quality established by the purchasing firm compatible with the condition $Ci(e_2) < d_i + z$ as illustrated in the Figure. As has been already discussed, this condition means that it is in the interests of every firm to adopt the cooperative strategy, because the costs of producing the required quality are lower than the benefits the firm would have to give up in the productive and social sphere, if it decided not to cooperate.

The fear of losing net benefits deriving from social capital can be an effective deterrent against defection in the productive sphere. Cooperation, therefore, can become a standard of behaviour, sustained by the benefits from social capital or, to put it another way, sustained by the fear of forfeiting social benefits in the case of non-cooperation: hence, the standard of cooperative behaviour can become a *community norm* (Aoki 2001: 49, emphasis in original), that is a kind of institution. This conclusion leads us to the existing relationship between institutions and social capital.

5. Institutions and Social Capital

We have emphasized so far how the importance of social capital in economic transactions is linked to the existence of contractual voids. Yet more generally one can observe a complementary relationship between institutions and social capital in influencing economic efficiency, in the sense that the effectiveness of institutions can be reinforced by social capital.[16] To explore this statement better, we are going to focus attention on the different meanings given to the concept 'institutions' in economic literature.

One definition, employed by North (1990) and taken from the language of sport, identifies institutions as the 'rules of the game', not to be confused with the 'players'. Herein, institutions are any kind of norm conceived by people to discipline their relations; these define both what is and what is not allowed, and provide a guide for human behaviour, thereby reducing the uncertainties of subjective decision making. The rules of a society are both formal, i.e. explicitly laid down by individuals, and informal, i.e. they arise spontaneously. In the former group we find the constitution and legal system of a country, political rules, and formal contracts. The identification and punishment of people who break the rules are essential if institutions are to function properly. As hitherto mentioned, in this first definition the rules of the game are different from the players: in other words, there is a clear distinction between institutions and organizations. The latter are defined as groups of people united by a common purpose of achieving a goal. So, while the rules (institutions) exist to regulate the game between individuals, the team (organization) exists to achieve a goal.[17] According to North (1990), contractual rules are, therefore, part of the complex web of formal restraints, which, along with informal restraints such as conventions and moral codes, make up institutions. In the second section of this chapter we underlined the importance of social capital when contracts are incomplete, or, in North's terms, in the presence of institutional voids. Indeed, we pointed out that social capital determines a surplus of enforcing power with respect to the enforcement mechanism of (incomplete) contracts, both formal and informal, that regulate economic transactions. Such a complementarity between institutions and social capital is supported in a recent work by Guiso, Sapienza, and Zingales (2004) who, whilst exploring the role of social capital in the development of the financial sector, found that social capital is more important in those areas in which legal enforcement is weaker.

A second definition sees institutions as a point of equilibrium in a repeated game (Greif 1989, 1997; Greif, Milgrom, and Weingast 1994; Aoki 2001). In this approach, institutions are made up of two interrelated elements: individual beliefs, i.e. how individuals expect others to behave in various circumstances, and organizations, which are social bodies (endogenous human constructs) that can alter the rules of the game. When institutions become established, they represent an equilibrium that has the characteristic of being self-enforcing. That is to say, the equilibrium occurs, not because there are rules that impose it a priori, but because so long as the beliefs of individuals regarding the rules of the game remain unaltered, agents will see that it is not in their interest to deviate from the profile of strategies that forms the equilibrium. According to this second definition, social capital represents a resource that can support existing institutions as well as create new ones. In the third section of this chapter, we pointed out how social capital can help create a self-enforcing cooperative equilibrium strategy, that, in the words of Aoki (2001: 207), 'is non feasible when agents are confined to making separate choices in isolated domains'. When the economic sphere is tied to the social sphere, however, even if agents have a strong incentive to cheat in economic transactions, a cooperative equilibrium (institution) can be endogenously supported by the fear of being excluded from access to the benefits of social capital.

A third definition of institutions more closely reflects the common use of the term. This includes not only the web of rules in force in a given social or economic sector, but also the specific players of the game, whose role it is to apply the rules and ensure they are respected by others, as well as the organizations and the means they use to carry out this task (Nelson 1994). To repeat the sporting analogy, there is no discrete separation between the rules of the game and the players; rather, the two blend into a single entity.

Within this third approach, there are a number of authors who try to articulate further the typology of institutions, making a distinction between *central* institutions, represented by states, national governments, and international organs, whose role is to produce universal institutional goods such as codes, laws, defence, national infrastructure and so on, and *intermediate* institutions. The latter are collocated between central government and the periphery where individuals act; their role is to supply selective institutional goods for specific categories or territorial ambits (Arrighetti and Seravalli 1999). Local business organizations, local government agencies, educational bodies are all included under this definition, as well as the written and customary norms that regulate their activities. It is interesting to note, as a number of oft-quoted works from the literature on social capital do, that social relations sometimes make up for the deficit of intermediate institutions at the local level, and they help institutions fulfil the role for which they are set up. The best-known example of this is highlighted by Granovetter (1973, 1974) in which social relations perform an essential role in offering indispensable opportunities to individuals, not only in terms of their integration into the community, but also opportunities in the economic sphere and their provision of a link between supply and demand in the employment sector. In such cases, it is evident that social capital complements the work of certain intermediate institutions, such as employment agencies.

On a wider scale, the production of local public goods—that is the strategic purpose of intermediary institutions—is strengthened by social capital, by the network of relationships between private and public actors. In the Italian literature on social capital, numerous studies on local development bring out the fact that in the setting up and development of industrial districts, the action of both the relevant intermediate institutions and the presence of social capital have been decisive.[18] In the words of Barca (2000: 6), 'the existence of an industrial district is closely tied to local social and institutional characteristics. The presence of a cohesive social environment, which encourages trust in economic relations, and institutions ready to respond to needs of production are elements that cannot be separate from the economic ones in determining the industrial district model of local development.' We shall return to the discussion on the relations between social capital, local development, and institutions—considered not merely as a cluster of norms but also as economic subjects—in the next section. To sum up, the conclusion that we can draw from what has been seen so far is that institutions (however the term is defined) and social capital are complementary factors in enhancing trust and improving efficiency in economic transactions.

6. Social Capital, Local Development, and the Institutional Context

In the previous section we showed that social capital and institutions matter in local development. But, how can social capital exactly have a positive effect on local development? The link between social capital and local development rests on a general connection: by building up the level of trust between agents, social relations reduce transaction costs and the difficulties agents face in bargaining.

Guiso, Sapienza, and Zingales (2004) study the effect of social capital on the financial development of Italian regions, and indirectly throw light on the close relationship between social capital and local development. In particular, the authors find, in a similar way to Putnam (1993), the presence of wide differentials from one area to another in the level of social capital, with the south of Italy suffering from an overall deficit compared with the north. The authors find that in areas with a higher level of social capital, there is a higher level of financial development, which is an essential ingredient in the economic prosperity of an area. The reason lies in the fact that a higher level of social capital, leading to a greater degree of trust between agents, has a positive influence on the development of the financial market, given that the signing of a financial contract depends, not only on its legal enforceability, but also on the degree of trust the financier puts in the financee.

Above all, the fact that the development actors in a particular area are part of social networks affects the volume of market transactions: other things being equal, social linkages generate trust and expectations of cooperation, thereby allowing actors to ease the fear of counterparts' opportunistic behaviour which exists in transaction relationships.

The transaction costs theory (Williamson 1985, 2002) suggests that productive decentralization is negatively dependent on the transaction costs of market exchange and that the efficient way to 'place' a transaction minimizes the sum of production and transaction costs.[19] From the analysis carried out so far in this chapter, it is clear, then, that social capital, insofar as it reduces the transactions cost of market exchange—because, for example, it furthers the information available to each party or because it engenders trust in the way the transaction will be carried out—makes flat organizational models relatively more efficient.

Trigilia (2001) makes it explicit how social capital, by lowering transaction costs, influences the efficiency of alternative patterns of organization too and, hence, the specific characteristics of local development. In particular, by reducing transaction costs, the network of social relations makes it relatively more efficient to adopt decentralized forms of organization. Social relations between entrepreneurs and employees and a widely shared common background are factors that have favoured, in some areas, the establishment of production organization models based on subcontracting and cooperation between independent small firms, such as industrial districts, characterized by a high degree of subcontracting between small firms specializing in a particular area of production. Naturally, high social capital areas are not necessarily economic systems sharing the characteristics of an industrial district; nevertheless, we can say that social relations, by favouring collaboration between independent firms at low cost, can make the use of the market and decentralized forms of production organization comparatively more efficient than vertical integration. From this point of view, one indirect effect of social capital is its role in attracting new firms: decentralization provides a chance for external firms or new entrants to capture a part of the demand from firms operating in that area. In this case, the network of locally existing relations can provide a positive externality that, by favouring contracting out, can help extend and diversify production and, in so doing, increase the size of the market. Both relations between firms, and those between the different institutional local development actors could be considered as 'bridging' social capital; this, being based on 'weak' links, is less vulnerable to the negative effects of sectional and vested interests than 'bonding' social capital.[20]

Moreover, within the same community or in a local context, social capital is more likely to exert its influence on production relationships: in terms of the model so far presented, there is more chance of z assuming a value which will be high enough to render cooperative behaviour self-enforcing. The reason for this is that, within a given community or local context, social capital and economic strategic interactions between agents are more likely linked to each other. In other words, at the local level, there is a greater likelihood that deviants will be identified and punished.

These positive effects of social capital on local development are central to the new local development policies currently being implemented both in advanced industrialized countries, and in rapidly developing areas: public policies aimed at improving the ability of given business agglomerations to produce this kind of externalities—that is to say the ability of firms, at a formal and informal level, to form networks is, in fact, one of the most important priorities in the innovative development programmes.[21]

Furthermore, social capital influences the production of local public goods. This applies not only to social goods in a broad sense, i.e. goods potentially available to everyone (for example, an integrated infrastructure, the available workforce, an efficient local banking system), but also in a narrower sense, 'club' public goods that are restricted to particular local groups of subjects: sectorial services centres, export consortiums, waste disposal and recycling plants, and so on (Crouch et al. 2001). Local public goods can stem from various sources. They can be the spill-overs of firms located in a particular area (specialized workforce, network of subcontractors), or the deliberate result of actions undertaken by public bodies, or combined public–private initiatives (training centres, industrial zones, centres of technology transfer and innovation). In both cases, the production of local public goods requires collective action. Individual companies could be caught up in the 'rationality trap', that is the tendency of single firms not to invest directly in local public goods to avoid giving a hand to their competitors. This logic, however rational it may appear from an individual perspective, is not beneficial for the local economy or society as a whole: for example, if companies, adopting this individualistic strategy, decide not to invest in the professional training of their workers for fear that other firms, who have spent nothing, will then reap the rewards of their investment, the workforce in that area will remain unskilled and unqualified. The way to overcome this dilemma is through collective action, which requires coordination and cooperation between a wide range of different actors (public institutions, business associations, economic bodies, development agencies, social organizations). The ability to coordinate and to create social and institutional consensus depends heavily on the quality of the network of social relationships between public and private actors; in other words, it depends on social capital.

Finally, we need to consider the question of economic policy for local development. We have highlighted in the previous pages how social capital constitutes a key resource in the presence of incomplete contracts, in particular, when it is impossible to establish formal relations between different levels in a hierarchy, in which every higher level hands down complete and verifiable orders to the level below. This is also the case with local development policies, where central government hands over to local government the responsibility for defining the priorities, on which to allocate available resources; or, in other cases where central government delegates local agents to decide among alternative development projects (Barca 2000, 2005). This process of delegation is justified by the importance of *local knowledge* when defining the priorities of regional development policies. A detailed knowledge of the most important needs of an area and how to satisfy them is locally specific and scattered among a large number of actors. From the considerations already made, it is clear that social capital, given a certain institutional context that can defend individuals from the vested interests, can not only foster knowledge exchange between the development actors and the formulation of a unified demand for public goods, but can also provide a more efficient way of identifying the right people to supply them and a more effective monitoring of their realization.

That said, it is not always the case that social capital has positive general welfare implications: cooperation based on social ties within a given community could in fact be harmful for other (unlinked) members of society, as in the case of criminal gangs, drug cartels, and so on (Spagnolo 1999). Moreover, rents derived from being a member of a certain community can be an incentive for maintaining the status quo: network members could, for example, oppose, or be hostile to the introduction of technical innovation or knowledge enhancement fearing that a reconfiguration of linkages would dissipate their current rents (Aoki 2001). Finally, the benefits that community members obtain in terms of valuable services imply considerable costs in terms of members' sense of obligations and commitments that can lead to unfair behaviours such as favouritism and restricted practices that hinder local development. Several authors, in fact, speak about perverse social capital when communities and networks work in isolation and pursue purposes in conflict with society's collective interests (Rubio 1997). Woolcock and Narayan (2000: 230) have emphasized, furthermore, how 'evidence from the developing world demonstrates why merely having high levels of societal solidarity of informal groups does not necessarily lead to economic prosperity'.

Thus, the effect of social capital on local development is the outcome of the combination of the positive and negative dimensions of the social ties. Different combinations of these two aspects of social capital can produce different outcomes. The combination actually achieved at local level depends, in turn, on the institutional context defined as 'the set of fundamental political, social, and legal ground rules that establish the basis for production exchange and distribution' (Davis and North 1971: 71). The scope for the perverse effects of social capital depends on the system of rules and norms that govern the actions of private and public subjects and restrict behaviours that are potentially harmful for overall society; it also depends on the extent to which information travels across networks and becomes available to judicial authorities and to other groups in the wider society; as well as the effectiveness and promptness of the legal enforcement mechanism.[22]

From a policy point of view, this conclusion suggests that, by modifying the institutional context through a system of rules and incentives, public policies can create the conditions for social capital to have a positive influence on the development of an area. Appropriate incentives can, in fact, 'force' local actors to adopt behavioural strategies designed to overcome sectional and vested interests, and to privilege collective action, thereby changing the initial institutional context for the better.[23] The success of any policy, however, depends on the ability of local actors to internalize the rationale behind the incentives and apply the new mentality and ways of working to different situations and locations. Obviously, for this to happen the actors need to see the new logic as aligned with their own interests.

7. Conclusions

In the economics literature the importance of social capital seems basically to rest on the trust generated by social relations. In this chapter we have argued that trust and social capital really matter the most when economic transactions are ruled by incomplete contracts. When all future contingencies can be contracted upon *ex ante* at zero cost there is no room for trust. By contrast, in a world of incomplete contracts independent agents need to trust each other in order to achieve the cooperation outcome of the game they are playing. For the sake of the analysis we emphasize, with the aid of the Aoki model, a possible mechanism through which social capital can support cooperation when agents are simultaneously involved in economic transactions and social relations.

The crucial role of social capital in the presence of contractual voids that we highlight is just one aspect of the complementarity between institutions and social capital. We investigate the relationship between institutions and social capital focusing on three main different meanings economists give to the concept of 'institutions': 'rules of the game', 'rules and players', 'equilibrium in a repeated game' and we find that the effectiveness of institutions, whatever definition of institutions we are using, can be reinforced by social capital. Yet this relationship is not one-way: the institutional context, that is the systems of rules and norms that govern the actions of private and public subjects and defend individuals from vested interests, give social capital the opportunity to positively effect economic outcomes and on society overall. To the extent that public policies modify the agent's incentive structure, they contribute to defining the institutional context. As a consequence, public policies may play a crucial role in creating the conditions for social capital to operate positively on the development of an area.

We have specified different channels through which social capital seems to affect local development. First of all social capital may extend the number of market transactions: other things being equal, social relations generate trust and expectations of cooperative group behaviour, particularly in a local context characterized by more dense networks. Furthermore, social capital encourages the spread of information and, in so doing, allows agents to lower the transaction costs caused by asymmetrical, or no information; moreover, social relations influence the production of local public goods. Along with the size of the market, social capital effects the qualitative aspects of the production organizational models prevailing in an area: by enhancing trust and, in so doing, lowering the costs of decentralizing production, social capital makes flat rather than vertical organizational models relatively more efficient. Nevertheless, to our knowledge, these insights, as well as the interaction between the different mechanisms through which social capital may effect local development, are still not formalized precisely and require further and more detailed investigation.

Most importantly, the welfare effects of social capital deserve more attention: it is to be hoped that future work will evaluate in greater detail the trade-off between the positive and negative dimensions of the social ties and its implications on local development.

Notes

1. Studies on social capital originated in the sociological field, where the use of the term has a much longer tradition than that of economic research. For wide-ranging surveys on the topic, the reader is referred to Woolcock (1998), Woolcock and Narayan (2000), and Jackman and Miller (1998).
2. Another main interpretation around which the theoretical debate on social capital rotates was introduced by Putnam (1993) in a famous study on the

Italian regions. By Putnam social capital is the propensity towards cooperation, trust, and civic participation by subjects operating in a specific context. According to Putnam, differences in the level of social capital lead to variations in the performance of local institutions. From Putnam's study, it emerges that Italian regions with different levels of local development present differences in their degree of social capital. In Putnam's opinion, the reason for different levels of social capital is to be found in the history of the different territories. According to this interpretation, differences in levels of civicness originated 800 years ago with the rise of the 'free city-states' in the north and the centre of Italy, which gave birth to a rich tradition of civic participation and horizontal relationships, while the south was ruled by hierarchical Norman monarchy. The assumed path-dependent character of social capital and its identification with a certain culture that favours cooperation seems, however, to make the success of an area inevitably dependent on pre-existing degrees of civicness.

3. Typical examples of the transaction costs of market exchange include the resources spent in searching information about transaction partners and prices, or the costs of negotiating and concluding contracts, and the time spent in monitoring their execution and enforcement.
4. See also Akerlof (1970); Arrow (1974).
5. The inefficiency could be connected with the tendency of the parties to invest at a lower than optimal level: rational agents do not invest the optimal amount of resources in value-enhancing activities if they cannot obtain their share of the surplus generated by the investment (Grossman and Hart 1986; Hart and Moore 1990). This reaction to the contract's incompleteness is more likely if the investment is, to some extent, party specific; that is, once made, they have a notable reduction of utility or value when they are diverted to alternative uses. Given this 'lock in' effect, the market takes the shape of a bilateral monopoly, despite possible *ex ante* competition (Williamson 1985). In such a market, both the buyer and the seller are in a contractual situation, in which the reward each will receive depends on the respective *ex post* bargaining power, and there is no way of knowing *ex ante* which party will have the better in the bargaining process. If the contract is incomplete, this opens the possibility of *ex post* opportunism by traders, who try to gain an advantage over one another: this is the so-called 'hold up problem'. This arises when each party worries the contract won't offer adequate safeguards against the possible devaluation of their investment by the actions of others (Milgrom and Roberts 1992). Given this risk, parties to the contract could prefer to reduce the level of investment below the socially efficient one.
6. Spagnolo (1999: 3) defines social capital as '*the slack of enforcing power present in the social relation*, the amount of credible social punishment power available as a threat in excess of that required to maintain cooperation in the social interaction' (emphasis in original).

7. Other applications of linked games, albeit not referring directly to social capital, can be found in Fudenberg and Kreps (1987) and Bernheim and Whinston (1990).
8. The definition of social capital provided by Bourdieu (1986: 248–9) in the sociological field is very close to the concept of strategic behaviour used in economic models: 'social capital is the aggregate of the actual or potential resources which are linked to the possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition—or in other words, the membership in a group … The volume of the social capital possessed by a given agent thus depends on the size of the network of connections he can effectively mobilize and on the volume of the capital (economic, cultural or symbolic) possessed in his own right by each of those to whom he is connected … The profits which accrue from membership in a group are the basis of the solidarity which makes them possible.' See also Bourdieu and Wacquant (1992: 119), Sobel (2002), and Glaeser, Laibson, and Sacerdote (2002). On the differences between Bourdieu's definition and that of Coleman, see Westlund and Bolton (2003).
9. The calculation of the payoffs in this case is different from the calculation of the reputational effects in repeated games that are played in isolation in a social or economic context. In the latter situation, the calculation of the payoff takes into consideration what happens in a single domain, while the effects of the actions in other domains are included along with technology and environment under contextual factors. Therefore, the possible interrelationships between different domains are not explicitly considered in the calculation.
10. The example we are about to present in a highly stylized fashion has been taken from a real event concerning the formation of an industrial district in the south of Italy (Mezzogiorno). The growth of a local system of interconnected firms was accompanied and supported by continual crossovers between the sphere of production and that of social interaction (cf. Cersosimo and Nisticò 2001; Viesti 2000).
11. So, if m firms do not cooperate each firm receives $B_i - md_i$.
12. In the real situation that has inspired this example, the consortium was created by subjects who already had social relations of this kind.
13. It is assumed that $B's\ (n) > 0$ if $n < n^* < N$ and $B's\ (n) = 0$ if $n^* \leq n \leq N$: there is, in other terms, a level of saturation in the production of social goods, when the number of individuals contributing to supplying them reaches threshold n^*.
14. Note that, based on the specific strategy, agents that have cheated in the production game in the past will not improve their payoff if they decide to cooperate in both games from the current round onwards.
15. Like other repeated games, the one presented here also has multiple equilibria; for more on this, and for a wider specification of this model, see Aoki (2001:

chapters 2, 7, and 8). Our purpose in illustrating this example is just to show, with the support of a simple analytical model, that when the productive sphere is tied to the social sphere, cooperation is a possible result, even if there is a strong incentive to renege on the economic transaction when considered in isolation.

16. For the moment I am leaving to one side the negative effects of social capital, which will be considered in section 14.6.
17. A similar separation was already evident in Davis and North (1971), where a distinction was made between 'institutional environment' represented by a cluster of formal and informal rules, that guide individual behaviour, and 'institutional arrangements', which correspond to structures governing transactions, deliberately set up by individuals in order to carry on and update economic relations (firms, organizations, public bodies, etc.). This manner of seeing institutions as rules of the game has also been taken up by Hurwicz (1993, 1996).
18. Compare, among others, Trigilia (2005); Brusco (1989); Becattini (1987).
19. Let S be a cost function defined as the sum of the transaction costs differences, that we express by ΔC_T, and the production costs differences, that we express by ΔC_P, between vertical integration and market: $S = \Delta C_T + \Delta C_P$. Thus defined, $\Delta C_T = C_T^i - C_T^m$, where i = vertical integration and m = market, and $\Delta C_P = C_P^i - C_P^m$. By replacing these two expressions in cost function S, we obtain: $S = (C_T^i + C_P^i) - (C_T^m + C_P^m)$. Function S can assume values which are greater, lesser, or equal to zero. When $S > 0$, the market is more efficient overall because the sum of the production and transaction costs in the market are lower than the sum of production and transaction costs in the vertically integrated production organization. Other factors being equal, as C_T^m decreases, S increases, and thereby market efficiency. In the work of Williamson, the analysis of the trade-off between vertical integration (firm) and the market takes into consideration assets specificity on which the transaction costs positively depend.
20. The distinction between strong and weak links comes from Granovetter (1973). For the concepts of bridging and bonding social capital see Gittel and Vidal (1998) and Putnam (2000).
21. See Barca (2000, 2005).
22. The uncertainty surrounding the effects of social capital has something to do with its contingent nature, which depends on the particular process and situation: it cannot be defined precisely, nor can its effects be predicted a priori. One has to study each case on its own merits, taking into consideration the actors, their aims, and the context in which they operate (Coleman 1990).
23. One example of such policies in Europe is the 'Employment Pacts'. The Territorial Pacts for Local Development policies have been widely applied in Italy. See Cersosimo and Wolleb (2001); Magnatti et al. (2005).

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CHAPTER 15

A RELATIONAL APPROACH TO THE THEORY AND PRACTICES OF ECONOMIC DEVELOPMENT[1]

MICHAEL WOOLCOCK
ELIZABETH RADIN

1. Introduction

The ubiquitous rise of 'social capital' as both an organizing concept and a basis for practical action has reinvigorated debates around key public policy questions, yet in doing so this rise has inevitably courted overstretch, misappropriation and critical dissent. The perennial gaps—discursive, ideological, and epistemological—between disciplinary partisans, and between scholars and practitioners, in their respective renderings of 'social capital' can be read as marks of an abiding sense of disconnect (and even disarray) among the various conceptualizations, measurement tools, and corresponding policy responses, even as they can also be reasonably interpreted as reflecting an encouraging sense of energy, innovation, and 'relevance' in social research, something not experienced for perhaps a generation (the civil rights era) or even a century (the progressive era).

Nowhere are these twin tendencies more evident than in the field of economic development (Bebbington et al. 2004), where the findings of an exponentially increasing scholarly literature on social capital (Isham, Kelly, and Ramaswamy 2002: 5; Halpern 2005: 9) now draws on and contributes to both a rich empirical literature on various aspects of economic development (e.g. Woolcock 1998; Woolcock and Narayan 2000; Fafchamps 2006) and an extensive range of practical poverty reduction initiatives whose efficacy turns, advocates claim, on the capacity of these projects to harness and/or build a community's 'social capital' (whether as a means to achieving other objectives—such as enhancing the effectiveness of health care interventions—and/or an end in itself). These ventures, moreover, are complemented by a vast assemblage of new, high-profile experimental (and quasi-experimental) research from the natural and social sciences on the biological, psychological, and strategic underpinnings of cooperation, trust, and reciprocity, much of which affirms and amplifies the core tenets of social capital theory.

It is important to make sense of this heady mix of excitement and ambivalence, to discern the 'noise' from the 'signal', and to use it to chart a path forward for scholarship in the fields of both social capital and economic development. This chapter endeavours to contribute to this objective by providing a brief but integrated survey of three contributing strands of theory, research, and practice—from social science, natural science, and development practitioners—as they pertain to the letter and spirit of social capital scholarship, with the goal of identifying more clearly and coherently the broad complementarities, the enduring limits, and the opportunities for future exploration.

A bedrock contention of the chapter is that the perennial laments surrounding the variety of definitions, measurements, theories, and applications of social capital—the field is variously said to be characterized by 'confusion', 'imprecision', and 'contradictions', and in the process to 'de-politicize' policy problems[2]—are not so much wrong as largely misplaced. As with other inherently contested concepts in social science (such as power, class, and culture), the utility of 'social capital' turns less on any underlying consensus regarding its conceptual coherence or the precision of its empirical referents than its capacity to draw attention to fundamental social processes and mechanisms, the manifestations and interpretations of which are likely to be as different as the variety of contexts in which they occur (Szreter and Woolcock 2004).[3] Put another way, it is unlikely that a neat scholarly consensus will *ever* emerge regarding the definition and measurement of social capital; and that is not a bad thing. Certainly in the realm of economic development, the idea of social capital will have served an immensely useful, important, and distinctive role if it helps to open discursive and conceptual space for serious deliberation on the roles—for better or worse—of norms, networks, and social relations in shaping identities, expectations, preferences, and survival and mobility strategies, especially in poor communities. Such an emphasis, moreover, is entirely consistent with and complementary to political economy concerns. Social capital cannot (and should not be expected to) carry an intellectual or policy burden beyond its modest capacity, even as there will always be room for a general and intuitively appealing 'introductory' term to call attention to deeper and more complex underlying phenomena (Bebbington, Woolcock, and Guggenheim 2006). As such, its comparative advantage is in seeking to identify the social mechanisms by which (say) political structures are created, consolidated, and perpetuated (e.g. through elite schools and clubs),[4] rather than striving to be itself a 'political theory' of economic development (see Leftwich 2005).

In this chapter we seek to go beyond (increasingly) conventional justifications for incorporating social capital theory into economic development research and policy, which centre on determining the empirical significance of 'participation' and 'inclusion' for improving access to information and enhancing democratic governance in poor communities (e.g. Krishna 2003). While there is surely ample scope for further research in this domain (see Mansuri and Rao 2004), we argue—perhaps more ambitiously—that social capital theory can and should speak more directly to the very means and ends of the development process, and the various mechanisms by which it is negotiated by those engaged in it. It can do this most constructively, we contend, by focusing attention on social relations as (*a*) a basis for survival and mobility strategies, (*b*) a constituent element of 'context', and more generally (*c*) a fundamental determinant of human behaviour. To this end, the chapter provides a brief overview of these arguments, and the empirical evidence—from both the social (section 2) and natural (section 3) sciences—on which they rest; it also, importantly, introduces recent examples of programmatic attempts to put into practice, implicitly or explicitly, the broad set of ideas encapsulated by the term 'social capital' (section 4), since much can be gained by a fruitful dialogue between scholars and practitioners. We conclude (section 5) with an exploration of the implications for social capital theory and economic development 'policy' and practice, and suggestions for sustaining meaningful dialogue between these otherwise rather separate realms of inquiry as a basis for moving forward.

2. Social Capital, Economic Development, and Social Science Research[5]

In order to understand where the contemporary literature on social capital and economic development 'is at' and to divine where it might (or ought to) be heading, it is important first to understand where it has come from. As such, a brief intellectual history of development theory, and the changing role of 'social' ideas within it, is in order.

In the 1950s and 1960s, the language of development theory was largely one of deficits (Moore 1997). Poor countries 'lacked' all manner of things, but chief among them were ports, communications, and transport infrastructure, and sources of energy. By this logic, the best and fastest way to promote development was to invest in such things, but doing so clearly required huge sums of money, at levels poor countries (by definition) did not possess. Rich countries soon discovered that financing such efforts could be not only profitable but also, perhaps more importantly, serve key geopolitical purposes, with aid being used strategically to support friendly governments and undermine those thought to be flirting with communism. The discourse of deficits also extended to the social domain: poor countries and their citizens were deemed—continuing a long-standing colonial tradition—'backward' and in possession of cultures, beliefs, attitudes, and behaviours (such as those pertaining to family planning, health practices, and work ethics) incommensurate with a 'modern' economy. Even influential United Nations documents of the time argued that such ways would have to be purged if 'progress' was to occur (Escobar 1995).

It soon became clear, however, that merely pumping physical and financial resources into poor countries was having, at best, a marginal positive impact. In conjunction with a series of financial crises in the early 1970s, a gradual splintering of development theory took place: one path (largely dominated by economists) began to focus on the role of public and private institutions in creating prosperity, while the other path (dominated by the other social sciences) argued instead that the core issue was power, and that rich country prosperity was obtained directly at the expense of poor country destitution. By the 1980s, these divisions were at their most stark. Neoclassical partisans around the world trumpeted the capacity of 'free markets' and entrepreneurs to usher in prosperity, while their counterparts saw only widening inequalities, environmental collapse, and cultural imperialism as powerful Western firms (often backed by their governments) secured ever more lucrative tax and labour concessions from beleaguered third world governments, themselves being urged to 'privatize' their state assets in the name of efficiency. For both paths, however, the social dimensions of development became epiphenomenal, an issue of secondary or little importance.

A sea change occurred in 1989 and the years immediately following. The collapse of communism, and the subsequent failure of most countries 'in transition' to respond favourably to the 'shock therapy' ushered upon them by Western governments and consultants left both paths at something of an intellectual dead end. This moment created both an opportunity and a need to revisit the social dimensions of development; if neither governments nor markets alone could bring prosperity, perhaps it was something about a society's social structure that made an important difference. Similarly, if market, state, and coordination failures were pervasive at the country level, then it seemed logical to focus on the 'social institutions' deployed by the poor—their kinship systems, business networks, and village organizations—to cope with them. A number of key works attempted to close this breach, the most important among them by Douglass North, Robert Putnam, and Amartya Sen. All in their own way argued that the social dimensions were crucial, both as the ends and means of prosperity. Putnam's (1993) work on social capital in particular gave scholars and policy makers the beginnings of a new framework—and, crucially, a *language*—for rethinking the role of social relations in poor countries and communities. From once being regarded as a dubious liability, to being dismissed as epiphenomenal or irrelevant, these relations were now seen as a potential asset. If the poor possessed nothing else, they at least had each other.

'Social capital' became the shorthand term of choice for this reframing, and in the process it was embraced (if not always enthusiastically) by both economists and sociologists as they began to encroach on each other's traditional domains. All of the strengths and weaknesses of the term in general, however, became manifest in the initial attempts to develop a serious account of social capital and economic development. What was the correct unit of analysis? Writers such as Francis Fukuyama (1995) argued that the capacity of a country's citizens to trust one another was central to building the large non-family firms needed to generate significant economies of scale;[6] Robert Putnam provided evidence suggesting that a density of civic organizations underpinned strong states and vibrant economies; and several World Bank studies (e.g. Narayan and Pritchett 1999) argued that, at the village level, access to a rich stock of community networks was a key determinant of well-being, perhaps even more important than education.[7] These individual cases made for interesting reading, but did they really add up to a new and more coherent way of understanding the role of social relations in shaping economic development processes?

A more concerted effort was launched to identify common themes emerging from the empirical work. Research on immigrants proved especially fruitful, since a broad base of qualitative and quantitative data on them was available (e.g. Massey and Espinosa 1997). Though not initially discussed in these precise terms, the distinction between bonding and bridging social capital (Gittell and Vidal 1998) showed particular promise.[8] Contrary to the predictions of neoclassical theory, for example, immigrants were not heading to places where jobs paid the highest wages, but to regions where friends and relatives from their town of origin resided. Often lacking proper documentation, and unable to speak the language of their new country, immigrants called on these more established contacts to help them find housing, credit, and employment (Portes 1995); over time, this ongoing process could create entire ethnic enclaves (Chinatowns, Little Italys, etc.). Observers were quick to point out, however, that any such benefits obtained by new immigrants were not costless; they were expected to strictly uphold the norms and expectations of the community, and, importantly, to perform a similar service when subsequent cohorts of co-ethnics arrived. Those who struggled to establish a viable livelihood might remain in need of such social and financial support, but there was evidence to suggest that economically successful immigrants who wanted to leave and become more assimilated into their host country encountered considerable resistance, to the point of having to change their names in order to divest themselves of their erstwhile communal obligations (Portes and Sensenbrenner 1993).

Moreover, those seeking to gain access to a broader array of markets and services found that doing so typically required cultivating an entirely new set of networks, ones extending far beyond their original host community (Barr 2000; Jha, Rao, and Woolcock 2007). Similar stories emerged from ethnographies of the urban poor, in both rich and low-income countries. As Briggs (1998) deftly puts it, the poor called upon their bonding social capital to 'get by', and their bridging social capital to 'get ahead', but discrimination, spatial isolation, low education, and 'different' cultural capital (vocabulary, comportment, accent) often conspired to deny them access to the latter. In rural areas, too, where formal institutional mechanisms (banks, insurance) for dealing with a host of financial, employment, health, and weather-related (floods, drought) risks are typically absent, poor communities are left with only their social connections to call upon (see World Bank 2000). As such, migration on the part of some members of a rural community to urban areas (or to wealthier countries), and the relatively huge sums of money villagers spend on festivals and weddings (Rao 2001), can be understood as an attempt by these communities to diversify their social capital, that is, to ensure that members have access to a wider array of networks for managing risk, thereby preventing localized disasters (such as crop failure) from wiping out the entire village (see Fafchamps 2004).

Making transitions between 'bonding' and 'bridging' social capital—or, more accurately, deploying both and maintaining a balance between them—is a central social task for everyone over the life course, but is especially important to improving the economic opportunities of the poor (Woolcock and Narayan 2000). To do so, however, is a very difficult task, not least because it entails moving between new (or assuming multiple) identities, and with it, a capacity to live with the different norms, attitudes, and expectations that each upholds, a process Granovetter (1995) aptly calls 'coupling and de-coupling'. Crucial life-course decisions such as when, whether, and to whom one gets married, when one leaves school, what occupation one pursues, what religion (if any) one upholds (and how fervently) are all powerfully shaped by one's family and immediate community; it is often only when a member challenges them or moves away that everyone discovers just how powerful they are. At the micro-level, the punctuated nature of the transitions between these different types of network affiliations and the 'social energy' necessarily accompanying them is one reason why economic development is inherently such a conflict-ridden process (Bates 2000)—it entails fundamentally re-imagining peoples' roles, status, and identity, as well as realigning their relations with other groups, especially with those in power (Woolcock forthcoming). Crucially, these mechanisms are driven by both development failure (e.g. forced migrations and resettlement as a result of war) and success (e.g. broad economic growth, which is otherwise desirable but currently giving rise to widespread suicides in India and local conflict in China).[9]

If the scholarly consensus in recent years has moved increasingly in the direction of understanding social capital as a 'micro' variable—that is, as being most usefully understood as the norms and networks underpinning (or constraining) collective action[10]—it has been accompanied by continued pressures (imperatives) to 'measure' it. The formal methodological challenges associated with measuring social capital from a micro-econometric perspective are usefully outlined by Fafchamps (2006); if we are to be consistent with the general approach articulated in this chapter, however, then we are bound to stress that any such measure(s) must necessarily be understood within their social context, and that as such comprehensive qualitative approaches must also be incorporated.[11] Indeed, in our view, the most insightful and persuasive accounts of social capital and economic development processes (e.g. Krishna 2003) have incorporated a 'mixed methods' approach.

3. Putting Social Capital Theory to the Test: Recent Scientific Evidence

The broad tenets of social capital theory and their manifestation in research on economic development, as outlined above, are in many important respects part of a much broader interest across the scholarly community in 'social' issues. This new research, spanning the natural and social sciences, provides a wealth of fascinating support for the fundamentals of social capital theory, and thereby bolsters the rigour of the empirical foundations on which attempts are made to incorporate it into applied domains such as economic development. As we show below, this research confirms that trust and altruism, as well as the related behaviours of collaboration and norm reinforcement, are central (perhaps even innate) to human social interaction. Most fundamentally, this research demonstrates that people's preferences, priorities, and strategies for realizing them are crucially dependent on social context—e.g. norms, identity, status, reputation, the nature and permeability of social boundaries between groups—findings that now manifest themselves in evidence from neurological studies of the brain to anthropological field experiments.

Over the past decade, for example, neurological studies have examined how elements vital to developing various aspects of 'social capital'—trust, collaboration, and altruistic punishment (a norm-establishing mechanism)—register in the brain. Indeed, the brain's recognition and processing of these social phenomena suggest that they are as fundamental human behaviours as searching for food or fleeing from danger (King-Casas et al. 2005; see also Fountain 2005). In one such experiment, students engaged in a form of the ultimatum game[12] demonstrated a correlation between activity in the caudate nucleus and the development of trust. At the outset of the game, the (increased) activity in the caudate nucleus, a brain region associated with reward, appeared in response to a partner's reciprocation. However, as iterated reciprocity bred greater trust, the activity in the caudate began to appear prior to reciprocation; that is, as the participants developed trust, they began to anticipate the reward of reciprocity. This display of reward anticipation mirrors broader reinforcement learning models.

In another experiment, researchers found a biological basis for trust involving oxytocin, a neuropeptide. This hormone, which humans produce naturally during breastfeeding and sexual activity, plays a role in the formation of strong social ties, including those between mothers and children or mating partners (Hopkin 2005). Neurologists isolated the neurological effects of oxytocin (from the psychological or the social effects surrounding its natural production) by introducing it directly to subjects' brains in the form of a nasal spray. They found that people who had sniffed oxytocin prior to engaging in an economic exchange game allocated larger amounts of their endowment to a trustee who could choose to return or keep any portion of the investment. The researchers determined the effects of oxytocin on trust by ruling out the possibilities that it might decrease risk aversion or increase generosity. Oxytocin did not increase the size of investments when investors played the game with a randomized computer, nor did it impact the portion of the investment that trustees returned; the researchers also found that oxytocin had no effect on investor optimism. With these other explanations eliminated, the study concludes that oxytocin increases trust in humans by lowering betrayal aversion (Kosfeld et al. 2005). This research thus implies that trust is a neural and physiological (as well as a psychological) response to bonding activities. Furthermore, it is fundamental in establishing strong social ties, such as those between members of the nuclear family.

Other researchers have found that social cooperation is also associated with activity in parts of the brain related to reward processing. When monitoring subjects engaged in an iterated prisoner's dilemma game, they found that instances where both partners cooperated (as opposed to one or both defecting) were associated with the greatest increase in activity in those parts of the brain associated with reward processing.[13] This pattern of brain activation was not repeated in response to non-social collaboration (when one subject cooperated with a computer) or monetary reward (when non-social cooperation yielded a payoff). Based on the results of this study, the researchers proposed that these neural patterns may reinforce reciprocal altruism 'by labeling social cooperation as rewarding, and/or by inhibiting the selfish impulse to accept but not reciprocate an act of altruism' (Rilling et al. 2002). In short, the study suggests that cooperation is inherently rewarding to humans, regardless of the (actual or anticipated) financial payoffs.

Neurological research has also identified a basis for altruistic punishment, a behaviour that reinforces norms of reciprocity but violates rational economic behaviour. In altruistic punishment, one party punishes another norm-violating party, even though the act of punishment is costly. In a study of this phenomenon, Sanfey et al. (2003) found that unfair offers (i.e. norm violations) in an ultimatum game stimulated parts of the brain associated with contradictory functions; unfair offers were associated with activity in the bilateral insula, brain regions associated with anger, pain, and disgust. Activation in these regions was not associated with unfair offers from computers, however, suggesting that the response is unique to social interactions. Unfair offers were also associated with activity in the dorsolateral prefrontal cortex (DLPFC) and the anterior cingulate cortex (ACC), regions associated with goal maintenance and cognitive conflict. If the activation of the bilateral insula was stronger, the subjects chose altruistic punishment, thereby depriving the offending partner of any gain at a cost to themselves; if the activation in the DLPFC was stronger, the subjects tended to accept the unfair offer, forgoing punishment of the offender in order to earn some profit for themselves.[14]

While acknowledging that humans exhibit trusting behaviour, many still question whether such behaviour arises from 'true trust' or simply a willingness to assume risk. In response, researchers from across the behavioural and social sciences have designed a range of innovative studies to test the various claims and counter-claims. Experimental economists have suggested ways of distinguishing trust from other motivations. Cox (2004) conducted a three-game design for distinguishing trust, reciprocity, altruism, and inequality aversion from each other, while Bonhet and Zeckhauser (2004) have differentiated trust from gambling by identifying differences in associated risk premiums. They found that social trust carries a higher risk premium than a non-social gamble, and suggest that the reason for this difference is the added risk of trust betrayal in social scenarios. Milinski, Semmann, and Krambeck (2002) examined trust and trustworthiness in terms of solving the tragedy of the commons. By running subjects through different combinations of indirect reciprocity and public goods games, they provide empirical data to support the intuition that reputation plays a role in cooperation and altruism. They find that when a good reputation promises some advantage, subjects violate the predictions of economics and game theory by forgoing individual gain to promote/support the public good.

Yet even in the absence of gains from reputation enhancement, recent economic experiments have found that most people are willing to reinforce norms through reward and punishment when it is in their long-term self-interest (see Andreoni and Miller 1993; Gachter and Falk 2002). The literature on the topic has termed this reciprocal altruism. Some people demonstrate an even stronger form of altruism known as 'strong reciprocity' (e.g. Gintis 2000). Strong reciprocators reward/punish norm conformists/violators, even at a cost to themselves (see Fehr, Fishbacher, and Gachter 2002).[15]

More applied work on Peruvian microfinance cooperatives by Karlan (2005) investigates the correlation between data from economic experiments and behaviour in real life. He finds that co-op members' behaviour in a trust game reflected their trustworthiness in real life: the members who consistently returned fair sums to partners who had invested with them were also more likely to repay their loans to the cooperative. Furthermore, Karlan found that some factors, such as geographic proximity or both partners being indigenous, were associated with increased trust and trustworthiness. However, he also concluded that those exhibiting more trusting behaviour may simply be less risk averse. While he believes the data on trustworthiness is clear, he questions the extent to which experimental economics can distinguish trust from propensity to take risks.

Experimental economics has also been used to facilitate anthropological conclusions about social capital that shed light on both its development and uses. Henrich et al. (2001)[16] documented sharing, cooperation, and altruism across fifteen 'small scale' societies. Participants from all of the societies averaged offers of greater than zero in an ultimatum game, suggesting the existence of some combination of altruism, strong reciprocity, and reputation-driven cooperation. Average contributions to a common pool in a public goods game were also consistently positive. In both games, subjects chose not to maximize individual income, as rational economics would predict, but rather to balance benefits to the self and to others. Upon closer inspection, the researchers found a high correlation between the degree to which subjects behaved altruistically/cooperatively and the 'structure of economic life' in their societies. On average, subjects from cultures in which there were high 'payoffs to cooperation' (e.g. societies that hunted collectively) and high 'market integration' made higher offers in the ultimatum game and contributed more to public goods. Conversely, individual factors such as gender, age, village size etc. were not significantly correlated with behaviours. The study reinforces the idea that trust, altruism and reciprocity are natural social adaptations to the demands and uncertainties that face any group.

Equally compelling findings come from the field of organizational psychology and Social Identity Theory (Haslam 2004). Like the neuroscientists, biologists, and economists cited above, Haslam asks why and how a social factor, in this case identity, impacts upon human behaviour to the point of inducing economically 'irrational' decisions. The fact that group identity dynamics can obscure economic goals has long been documented in both experiments and practice. In a 1971 experiment, for example, a team of social psychologists (Tajfel et al. 1971) found that children asked to pick a combination of payoffs to both an in-group and an out-group member preferred combinations of maximum difference (i.e. where that the in-group member received more than the out-group). They preferred to differentiate themselves above the out-group so strongly that they eschewed more empirically profitable combinations, including maximum joint payoff and maximum in-group payoff (i.e. where the in-group would have received more than in the maximum difference option, but the out-group would have received the most).[17]

As compelling a case as these studies make for the existence of in-group favouritism, Haslam (2004) argues that the distinction that positive differentiation makes is neither an inherent quality of group members nor an inevitable tendency of the groups they compose. Henri Tajfel and John Turner (1979) identify three characteristics of social environment likely to encourage inter-group competitiveness. They include: the salience of group identity amongst group members, the opportunity for inter-group comparison, and the relevance/contestability of the in-group's status relative to the out-group. Thus if the social context creates a strong enough need for the individual to gain self-esteem, the benefit of creating positive distinctiveness can outweigh the empirical economic cost of forgoing a more equitable, profit-maximizing option.

The important question then becomes when and how group identity becomes so salient that an individual pegs self-esteem to group status. What leads to this extreme form of collaboration, where individuals sacrifice personal gain to improve group ranking? Haslam suggests that group identity is determined by two kinds of factors: how one constructs explanations for one's place in the world, and the degree of immutability ascribed to that construct. For example, if an individual believes that social mobility is desirable and possible—i.e. that it is possible to permeate group boundaries in order to improve individual status—he is more likely to adhere to an interpersonal social construct. If another person, however, believes that groups are impermeable, and thus changing status requires fundamental social change, she is more likely to hold an inter-group construct. Logically, social change and inter-group constructs are associated with high salience of group identity, whereas social mobility and interpersonal constructs are associated with low salience of group identity (Tajfel 1975). Extreme intra-group trust and collaboration are thus the necessary extensions of a world view that sees individual fate as inextricably linked to an inescapable collective status (cf. Appadurai 2004).

In addition to the evidence for interpersonal elements of social capital, social science research also contributes to more macro-level understandings in the form of network theory. While the 'ties that bind' any one person to another may be fostered through trust, collaboration, and norms of reciprocity, the end result of all of these interactions is a networked human race. Beginning with Stanley Milgram's (1967) pioneering work, social scientists have experimentally documented and modelled the manner in which bonding and bridging ties have knit all (or at least most) of humanity into a small network. More recently, computer scientists and mathematicians have explored the network phenomenon through both formal modelling and real-world applications. Mathematical sociologist Duncan Watts (1999) describes his model of such social networks as having 'high local clustering and short global separation' while being 'neither completely ordered nor completely random'. In addition to developing technical descriptions of the network's composition, Watts has rendered social networks as manifestations of social capital. In his description, most people belong to a small and relatively homogeneous clump, most of whom they know directly—a clear manifestation of bonding social capital. Yet Watts also describes 'linchpins', or people who then serve as links between clumps organized by time periods, geography, and culture. These linchpins create bridging and linking social capital between different groups.[18]

Important as this work is, and as much as it provides formal empirical underpinnings for much of the core tenets of social capital theory, the more pragmatic world of economic development policy and practice proceeds only partially on the basis of scholarly research. Indeed, it is something of an academic conceit that 'policy change' flows logically in a direction from carefully defined concepts and coherent theories to firm evidence and application. In the field of economic development, the causal arrow can be usefully reversed, with hard-won lessons emerging from project implementation realities themselves providing a test of the fruitfulness of social capital theory (see Bebbington, Woolcock, and Guggenheim 2006). The following section provides three simple illustrations of this.

4. Lesson from Practitioners

As we have seen, recent evidence from across the biological, behavioural, and social sciences increasingly suggests that human behaviour can be most fruitfully understood as relational, i.e. that preferences and strategies are crucially determined by primary reference groups and social context. Another entry point into this argument and its implications for economic development, however, is to identify where and how a 'relational' approach to understanding the development process—and related considerations of how to 'influence it' through prevailing policies and programmes—might fit.

One key lesson that emerges from close engagement with development projects is just how important face-to-face relations are for implementing many of the most basic social services needed in poor communities (such as education and health care). In this section, we create an analytical space for what we shall call 'practices', which are quite distinct from orthodox considerations of 'policies' and 'programs' (see Pritchett and Woolcock 2004). For our purposes, 'practices' refer to face-to-face relations between people that are central for certain services—such as long-term health care (between nurse and patient) and education (between teacher and student) to be delivered and/or for certain problems to be solved—such as those that inherently require negotiated ('adaptive') resolutions,[19] like race relations. Where 'policies' are *technocratic* and 'programmes' are *bureaucratic*, 'practices' focus on the *idiosyncratic* relational aspects of development interactions, and thus should be, we contend, at the heart of social capital theory's contribution to understanding the development process.

Effective policies and programmes, as defined above, are clearly important. Programmes work well where an extensive but straightforward (i.e. coordinated but not relationally intensive) set of actions will achieve the goal. The eradication of the disease riverblindness, for example, exemplifies programmatic success. In the 1970s, the World Bank identified riverblindness as a serious threat to the standard of living and economic development in West Africa. It subsequently created a series of partnerships across the public, private, and NGO sectors to eliminate the disease through a two-part programme that placed larvicides in the water where it grew and distributed Ivermectin pills to people in affected areas. The programme had to be carried out on a large (eleven-country) scale composed predominantly of remote rural regions. However, the actions required were straightforward, uniform, and reliably effective. International organizations sprayed rivers, distributed pills, and, ultimately, eliminated the disease in target countries, in the process saving the lives of roughly 40 million people. Riverblindness was a perfect problem for a 'programmatic' solution.

Unfortunately, not all public health crises that threaten individual lives and collective prosperity are so ripe for programme treatments. As the development profession and the international community have come to learn, the HIV/AIDS epidemic does not lend itself to standardized solutions. While it may be a medical problem for which there are medical treatments, there are no simple steps to cure or eradicate it. Furthermore, AIDS spreads primarily through sexual contact, giving it all the complexities of a social issue. The prevention or proliferation of AIDS depends on millions of social interactions informed by a complex web of sexual mores, gender politics, health knowledge, tradition, taboo, and economic considerations. In addition, addressing the AIDS crisis also means addressing the social chaos—including deterioration of the family unit, exploitation of vulnerable populations, loss of income stability, and cultures of death—that it has wrought. While making treatments affordable and available around the world is nothing short of a moral imperative, it will not eradicate the disease or neutralize its effects. No programme can administer *the* solution to AIDS; there isn't *one*.

Like many inherently social development challenges, HIV/AIDS requires an adaptive solution. Neither a technical policy nor a standardized programme alone will address the innumerable manifestations of what are actually thousands of interrelated epidemics.[20] Crises refracted through the prism of social relations (from HIV/AIDS to ethnic conflict) demand development solutions that undergo the same refraction. They demand idiosyncratic, highly discretionary *practices* that employ social relations as both means and ends. In yielding a suitably diverse and context-specific set of responses, the 'practices' approach also begins to reconcile a central issue in the field of development: the tension between the consensus that 'one size does not fit all' and the imperative to respond coherently to complex, context-specific problems. Ideally, practices create many sizes to fit many. The following are examples of organizations that use practices as adaptive solution(s) to social challenges.

Ubuntu Education Fund (South Africa)

The Ubuntu Education Fund works with the people of the Eastern Cape Province (in South Africa) to help provide quality education and health programmes.[21] While rarely acknowledged explicitly, bridge building and social capital define Ubuntu's work. From the organization's theoretical underpinnings to its daily operations, social relations serve as both the means and ends of development. The name 'ubuntu' refers to a traditional philosophy that defines the human race as a network. It embodies the sentiment expressed in the (locally) well-known maxim 'Umntu Ngumuntu Ngabantu'—a person is a person through other people. Viewed through a lens of Western sociology, *ubuntu* deftly embodies the essence of social capital theory. It yields bonding social capital—norms of reciprocity and generosity amongst families, communities, and ethnic groups—as well as bridging social capital—the conviction that out-group members can and must be treated as part of the network of extended family. Applying Briggs's (1998) practical parsing of social capital, the philosophy of *ubuntu* generates the social ties that help people 'get by' as well as the social linkages that help people 'get ahead'. As a development organization, Ubuntu operates on the premiss that addressing extreme poverty in a middle-income context requires the security of the former and the leverage of the latter.

Ubuntu takes its namesake philosophy seriously, building bridges as a means of meeting the adaptive challenge of development. Each project begins with Ubuntu soliciting local input and decision making, introducing accountability measures, and establishing quid pro quo style partnerships with the communities. This approach's success in establishing trust and a sense of partnership between the organization and the community is evidenced by the security that Ubuntu projects enjoy. In neighbourhoods where schools are commonly robbed of their pipes, doorknobs, and any piece of metal that can be sold as scrap, Ubuntu computer centres, libraries, and offices have almost never been harmed.

Ubuntu's mission is to realize a 'New South Africa', to shake Apartheid's injustices and restrictions and create a society where race does not determine life chances. To that end, Ubuntu develops community-operated health and education projects. The rationale behind this approach is that improving the resources available to children who are socially, economically, and geographically marginalized will increase their access to the opportunities enjoyed by their peers in South Africa's first world circles. Through literacy and technology programmes, Ubuntu provides physical resources (books and computers) as well as curricula and teacher training. Ideally, these programmes provide children from even the poorest township schools with the skills required to pursue higher education and professional careers.

The career guidance component of Ubuntu's literacy programme does some of the organization's most explicit bridging work. This initiative creates career centres that provide children with information and assistance in pursuing higher education and/or career paths. An annual career fair also brings professionals and representatives of prospective employers and educational institutions to the townships. Like the inner-city youth who participated in Briggs's (1998) Yonkers study, most township children lack family, neighbours, or other natural links to adults who have earned a college degree or practised a profession. With unemployment in the townships as high as 80 per cent, many may not even know an adult who is gainfully employed. Thus Ubuntu's career fair represents an essential and unique opportunity for building bridges between South Africa's first and third worlds.

Yet, perhaps even more so than education, addressing township communities' health crises is at the core of Ubuntu's strategy for bridging disadvantage to opportunity. In the communities where Ubuntu works, the AIDS epidemic has led to a social breakdown entailing a significant orphan population, child heads of household, loss of income and labour force participation, as well as the abuse and exploitation of vulnerable populations. Ubuntu's health initiative trains local youth to act as health educators and counsellors. These youth leaders serve as ambassadors in a sense, bringing information and positive health practices to communities with no access to formal medical care. In their role as counsellors they also link individual children and families to social services that few in the townships know are available. While Ubuntu uses regularized models for gathering feedback and a common curriculum for health education, both of these frameworks seek, incorporate, and respond to feedback. Ubuntu works through 'practices' by shaping each development interaction—from building a library, to conducting a health class, to providing counselling—to suit the community, school, class, and even the individual child it seeks to reach.

Seeds of Peace (United States)

Seeds of Peace is dedicated to empowering young leaders from regions of conflict with the leadership skills required to advance reconciliation and coexistence. Seeds of Peace takes a relational approach to building peace in some of the world's most conflict-ridden areas. Their driving philosophy—that 'treaties are negotiated by governments but peace is made by people'—lends itself to a socially oriented strategy of 'working to forge the personal relations critical to peacemaking and reconciliation'.[22] They believe that political peace is nurtured and sustained only by strong social ties.

Seeds of Peace develops bridging social capital between children on the opposite sides of conflict by bringing youth with outstanding leadership potential to a summer camp located in the United States. In this (theoretically) neutral context, Arab and Israeli, Serb and Bosnian, Indian and Pakistani, Greek Cypriot and Turkish Cypriot children meet, play, talk, share, collaborate, and learn with their traditional enemies. The camp's staff structure activities and create venues for both trust building and honest dialogue. They offer opportunities for students to share, and thus demystify, their different cultures and religions. The intended result is that the children, having grown to understand and value each other, will be more willing to work towards peace when they return home and especially when they grow up.

While Seeds of Peace believes the removed setting of the camp (in the state of Maine) is essential to bridging the differences between their participants, the organization also runs modified versions of their activities at sites located in the Middle East, South Asia, North Africa, and Europe. These local 'Centers for Coexistence' serve the purpose of reinforcing the lessons taught at the camp and sustaining relationships and trust in the more challenging real-life context where children must face conflict on a daily basis.

The Kecamatan Development Programme (Indonesia)

Perhaps the greatest challenge in bringing practices back in to development debates lies in the apparent difficulty of implementing them on a large scale. The idea of widely operationalizing, let alone monitoring and evaluating, an array of ever-changing, relationally intensive, context-specific responses to development challenges is daunting, if not completely counter-intuitive (Guggenheim 2006). While it may be clear how social relations can work within the context of a geographically focused organization like Ubuntu, or a controlled environment like Seeds of Peace, envisioning their replication on a countrywide scale is no small conceptual leap.

So how can policy engender practices as we have defined them? And what does a programme built around social capital theory and practices look like? The Kecamatan Development Programme (KDP), a joint venture between the government of Indonesia and the World Bank, offers one answer. KDP strives to reduce poverty, while increasing local capacity and improving governance, by providing small grants directly to villages. The local communities then must use the grant for an economic development project that they also manage. KDP empowers Indonesian villagers to both strategize and prioritize in regards to development goals, a process that is inherently relationally intensive (Gibson and Woolcock 2005). Collective knowledge and preferences emerge, informing the development process directly. The results are infrastructure, income-generating and social service improvement projects well harmonized to beneficiary needs, priorities, and aspirations. While diffusion of authority and flexibility enable KDP to respond well to diverse community situations, they also open the door for traditional development pitfalls, including corruption and elite capture. To guard against these hazards, KDP gives villagers wide discretion over the use of funds while keeping the process by which those funds are allocated both transparent and slow paced. In this manner, KDP allows enough people to understand and become involved in the project that corruption and other misuses of funds and benefits are dramatically limited (Olken 2005).

KDP requires communities to collectively negotiate the development process, in turn fostering relational skills, governance capacity, and even conflict resolution mechanisms (Barron, Diprose, and Woolcock 2006). Again, social relations are both means and ends. The decision-making process required to transform a grant into a community asset is inherently social. As a result, it generates the social capital needed to make the investment of financial capital sustainable. Communities emerge from the decision-making process better organized, better able to communicate, and more capable of resolving internal dispute—that is, better prepared to meet the social challenges that necessarily accompany economic growth.

5. Conclusion

Conventional approaches to understanding the relationship between social capital and economic development stress the importance of 'participation', of taking a more 'community-based' approach to poverty reduction and 'good governance'. On the face of it, such arguments have much to commend them, even if the formal evidence base on which they rest remains rather thin (Mansuri and Rao 2004). Much can and should be done to assess the efficacy of these relationships in a rigorous and comprehensive manner, the better to inform hard-nosed decisions about the 'best' way to allocate finite development resources and design appropriate interventions.

Such an approach, however, does not fully explore or properly exploit the emerging evidence from mainstream science and experimental social science, which argues for taking an increasingly 'relational' (cf. Emirbayer 1997) view of human behaviour, and innovative development projects to address local governance and conflict, which argues for creating legitimate and accessible spaces wherein political differences can be (more) peacefully negotiated. Reconciling these tensions is not merely an uncomfortable (or 'soft') component of development; it *is* development. Moreover, because the development business is inherently one of encounters between people with such vastly different power, expectations, and mental models, effective strategies to reduce poverty must therefore give a much more prominent place to perspectives that can help 'manage' these encounters in the most equitable and accountable manner.

In this chapter, we have provided a brief review of the diverse evidence needed to sustain arguments in favour of taking a 'relational' approach, and used it to help open an analytic space for incorporating 'practices' into development deliberations. It is, we hope, a departure point for thinking and acting more sensitively yet rigorously with respect to the inherently social dimensions of development. In the end, the key development problems of the twenty-first century will not (cannot) be solved by a lone genius, a single discipline, or a Big Plan (Woolcock forthcoming); the idea of social capital will have more than justified its rapid rise in the scholarly literature and policy discourse if it can inform and legitimize a more integrated approach to framing the questions we ask, the problems we prioritize, and the methods we invoke to address them.

Notes

1. We are grateful to Harvard University's Center for International Development for financial assistance and to the editors of this volume for their constructive comments and suggestions. The views expressed in this paper are those of the authors, and should not be attributed to the World Bank, its executive directors, or the countries they represent. Address for correspondence: Michael Woolcock, Mailstop MC3-306, 1818 H Street NW, Washington, DC 20433, USA. Email: mwoolcock@worldbank.org
2. Within the field of development studies, the most high-profile critics on the matters have been Fine (2001) and Harriss (2002). See Bebbington et al. (2004) for a more detailed response to the specific types of concerns these authors (and others) raise.
3. At present the definitive intellectual history of social capital is provided in Farr (2004).
4. This strand of work follows from the social capital theory developed by Bourdieu (1986).
5. This section draws on and updates Woolcock (2003*b*).
6. Highly influential papers by Knack and Keefer (1997) and Temple and Johnson (1998) consolidated a view that social capital ('social capability') was—or could be construed as—an aggregate ('national' level) variable.
7. Key to contributions from the World Bank's 'Social Capital Initiative', which ran from 1997 to 2002, are presented in Grootaert and van Bastelaer (2002*a*, 2002*b*).
8. Bonding social capital refers to family and other relations between people with similar demographic characteristics; bridging social capital refers to relations that transcend those immediate boundaries. Szreter and Woolcock (2004),

following World Bank (2000), have also argued for the notion of 'linking' social capital, a 'vertical' dimension in which social relations span power differentials (e.g. between teacher and student, doctor and patient, social worker and client, where regular face-to-face interaction is inherently required).

9. On suicides in India see Deshpande (2002); on widespread conflict in China see Muldavin (2006). We stress that we are *not* saying that these desperately unhappy outcomes are not the result of 'weak' or 'inadequate' social capital on the part of the rural poor in these countries; rather, a social capital lens, as we have sketched it, helps connect 'macro' processes of economic change with 'micro' processes of transformations in identities, social relations, and political structures (Polanyi 1944).
10. Even at the 'micro' level, quite serious differences of opinion endure, the most glaring being that between those (e.g. Portes 1998) who regard social capital as the resources (e.g. information, trust) that flow through ('inhere in') one's networks, versus those (such as Putnam 1993) who hold that the nature and extent of the networks themselves constitutes one's social capital (Woolcock 2003*a*).
11. To this end, the World Bank has produced both a quantitative (Grootaert et al. 2004) and a companion qualitative guide (Dudwick et al. 2006) to 'assessing social capital in context'. Building on and refining the early work on social capital measurement at the Bank (see especially Grootaert and van Bastalaer 2002*b*), these documents should be read as the 'second word' on measurement issues, certainly not the last.
12. In the ultimatum game one partner is given a sum of money. They offer the second partner any portion of that sum. The second partner either accepts the proposed allocation or rejects it, in which case both partners get nothing.
13. Specifically, the caudate nucleus, nucleus accumbens, ventromedial frontal/orbital cortex, and rostral anterior cingulated cortex.
14. A related study (de Quervain et al. 2004) also discovered a link between altruistic punishment and activity in the parts of the brain associated with reward. Subjects who punished a norm violator, even to their own detriment, exhibited increased activity in the caudate nucleus, suggesting that they anticipated a sense of satisfaction. Thus neurological research provides a biological explanation for human behaviours that violate much of the predictions of economic and game theory: brain processes may encourage and even reward individual loss that reinforces collectively beneficial social standards.
15. See also Fehr and Fishbacher (2003) and Fehr and Rockenbach (2004).
16. The full results of this major project are presented in Henrich et al. (2004).
17. Cited in Haslam (2004).
18. As related work on networks has demonstrated (see Johnson 2001), order can emerge from networks of interaction governed by simple rules rather than social norms (quintessentially, ant colonies and beehives). See also the important book by Seabright (2004).

19. Indeed, some (e.g. Roe 1991; Scott 1998; Pritchett and Woolcock 2004) have argued that the failure to incorporate the unique local knowledge residing in these relational dimensions has itself been a major source of failure in the development enterprise. More generally, management experts Heifetz and Linsky (2002) have gone so far as to claim that 'the single most common source of leadership failure . . . in politics, community life, business or the nonprofit sector . . . is that people, especially those in positions of authority, treat adaptive challenges like technical problems',
20. 'The epidemics in Africa are diverse, both in terms of their scale and the pace at which they are evolving. There is no single "African" epidemic.' UNAIDS/WHO 2004 World AIDS Report.
21. <www.ubuntufund.org>
22. <www.seedsofpeace.org>

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CHAPTER 16

SOCIAL CAPITAL AND ECONOMIC DEVELOPMENT

ANIRUDH KRISHNA

1. Introduction

During the 1980s and early 1990s, while working for the government of the Indian state of Rajasthan, I managed a variety of development programmes that were intended variously to enhance productivity, reduce poverty, and improve social services. Large numbers of such programmes were taken up during this time, and while no programme succeeded everywhere, none was a failure in all locations. Most programmes had mixed results: succeeding beyond expectations in some villages of the state and failing miserably in some others. Such mixed results are quite common in development practice—no magic bullet exists that can solve the problems of all poor people—so it was not surprising to find our programmes performing unevenly in different villages of the state.

It was curious to observe, however, that even as differences in programme performance across villages were large, the quality of performance *within* any particular village did not vary very much across different programmes. Over time, I began to recognize a small group of villages that performed well across a wide range of development programmes. No matter which programme was considered, results in these villages were superior by far to those achieved within other neighbouring villages.

Chitakhera village in Ajmer district provided my first example and it set in chain a process of thought and inquiry. This village of 1,479 inhabitants is located about 25 kilometres distant from the nearest bank and post office and 80 kilometres from the nearest hospital. It won a national award in 1995 for successfully implementing integrated watershed development. It was also first among nearly 1,200 villages in this district in family planning; it attracted more anti-poverty assistance on average than almost any other village (and it made much better use of these funds); and a higher proportion of children in this village attended school regularly.

Chitakhera was not, however, an isolated example. Many other villages that I knew also outperformed their neighbours regularly on multiple indicators of development performance. This empirical regularity while intriguing was also disturbing in another respect: if one group of villages performed uniformly well in multiple development programmes, was there another group of villages that performed uniformly *badly*? My inquiries in the field did, in fact, reveal that another group of villages also existed which performed poorly in a range of different development programmes, including pasture management, employment generation, poverty reduction, and providing basic health and education services.

What could be done to improve development performance within the latter group of villages? The literature on economic development suggests a variety of possible explanatory factors, including population size, extent of commercialization, degree of remoteness, and effectiveness of programme staffs.

Social capital is another explanation that has been introduced relatively recently within this mix. Social capital is defined as 'features of social organization such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit' (Putnam 1995: 67). Social capital theory claims that relatively stable patterns of social interaction exist within some communities that are useful for sustaining mutually beneficial collective action. Communities possessing large amounts of social capital are able to engage in mutually beneficial cooperation and achieve high performance over a wide front. Communities that have low levels of this resource are less capable of organizing themselves effectively and will therefore achieve comparatively less (Putnam 1993, 1995, 1996; Fukuyama 1995).

Intra-group differences have important consequences for the results that groups can achieve in practice. What happens *within* the group influences its achievements in the world outside.

This claim is surely worth examining seriously, particularly in the context of developing countries.[1] If social capital does, indeed, make a considerable difference to development performance, as its proponents assert, then aid should be redirected almost immediately to communities that have high levels of social capital, since these communities are already equipped with a capacity for mutually beneficial collective action. Other communities, with lower social capital rankings, should be assisted first to enhance their stocks of this resource, and programme aid can follow in the second step. If the social capital hypothesis is correct, then development performance can be improved overall by focusing on communities' stocks of social capital.

It is important, however, to verify this claim empirically. I undertook such an examination in Chitakhera village and in fifty-nine other village communities of the surrounding region (Krishna 2002*a*), and in section 4 of this chapter I will report the results of this study.

Section 2, immediately following, briefly reviews some of the recent literature that is concerned with the connection between social capital and economic development. Different conceptions of social capital have been proposed, related to different levels of societal aggregation, including the national level, the community level, and the individual level. While each of these different conceptions is variously appropriate for examining different features of societal organization and different aspects of economic development, the community-based conception, proposed by Putnam (1993, 1995) and quoted above, is particularly important in my view.

National plans produce different results within different communities. Faced with the same market opportunities and the same programmatic incentives provided by the state, some communities develop quite fast and others develop much slower. Knowing what specific community-level factors are associated with faster development can help to spread the benefits of development more equitably and evenly.

A scale for measuring social capital independently had to be constructed in order to test these claims. Clearly, it will not do to work backward from superior performance, such as Chitakhera's, and conclude that because performance is high in some village, social capital must also necessarily be high.

Such a conclusion is tautological and ultimately worthless. To establish the utility of social capital theory, and especially to put it into practice, one must have a reliable measure of social capital that is assessed independently of performance. Cause and effect must be disentangled in order to verify the linkage between them. I will discuss in section 3 how such an independent and contextually relevant scale was constructed, and more generally, how context matters for the measurement of social capital.

Section 4 presents the results of an empirical examination that was made using this measure of social capital. Social capital matters for faster and more equitable economic development. It is not by itself, however, the entire answer to this question.

Institutional linkages matter in addition to social capital. In contexts where economic development is a pressing need, institutional connections are quite often weak, and communities that are only weakly linked with states and with markets cannot usually achieve rewards commensurate with their internal strengths. Section 5 examines why social capital is not very productive in such situations.

In addition to helping build social capital *within* communities, institutional links will also need to be strengthened *between* communities and markets and *between* communities and the state. Section 6 concludes this chapter by briefly reviewing current knowledge on the nexus between social capital and economic development. Important directions for future research are also reviewed.

2. Social Capital and Economic Development: Alternative Conceptions

Social capital has been shown by various analysts to be an important resource for economic development. Narayan and Pritchett (1997) show how high social capital is associated with higher household incomes in Tanzanian villages. Similarly, Grootaert (1998) shows that higher social capital is associated in Indonesia with higher levels of household welfare. Community development performance is better in villages of north India that have high levels of social capital (Krishna 2001). And national economic growth is higher overall in countries where trust and social capital are higher (Fukuyama 1995; Temple and Johnson 1998).

Other accounts verify how high social capital is related to better irrigation management (Lam 1996); improved environmental preservation (Rudd 2000); reduced neighbourhood crime (Sampson, Raudenbush, and Earls 1997); and higher industrial productivity (Fernandez, Castilla, and Moore 2000). More effective democratic representation (Krishna 2002*b*; Seligson 1999) and more stable ethnic peace (Varshney 2001) are also related to communities and societies possessing higher levels of social capital.

Social capital matters for national economic results and for regional institutions' performance (Knack and Keefer 1997; Putnam 1993). And it matters also for communities' welfare (Esman and Uphoff 1984; Seligson 1999; Uphoff 2000); for firms' profitability (Fernandez, Castilla, and Moore 2000); for household income (Maluccio, Haddad, and May 2000); and for individual well-being (Burt 1997; Coleman 1988, 1990; Lin 2001). From the highest to the lowest levels, economic development results have been shown to respond positively to higher social capital.

Broadly three different levels of societal aggregation have been considered in these analyses—the national level, the community level, and the individual level.[2] Each level of examination is useful for discussing different aspects of economic development. It must be remembered, however, that somewhat different conceptions of social capital are associated, respectively, with each different level.

The *national*-level conception of social capital includes aspects of social organization and also 'formalized institutional relationships and structures, such as governments, political regimes, the rule of law, court systems, and civil and political liberties' (Serageldin and Grootaert 2000: 46). Studies within this conception have focused on how social capital so defined—including state and also societal institutions and focusing as well on the synergies between them (Evans 1996)—can make a difference for national economic performance (e.g. Kenworthy 1997; Lyon 2000; Morris 1998; Paxton 2002; Petro 2001; Torsvik 2000).

At the *community* level, social capital is regarded, following Putnam, as an asset, a functioning propensity for mutually beneficial collective action, with which different communities are endowed to diverse extents (Krishna and Uphoff 2002). Studies employing this conception of social capital have demonstrated how the possession of high social capital is associated with better results in terms of communities' welfare (Krishna 2002*a*; Meinzen-Dick, Raju, and Gulati 2002; Uphoff and Wijayaratna 2000).

At the *individual* level, social capital is considered, instead, as resources embedded within social networks that are used by individuals to facilitate particular actions for their individual benefit. Studies within this tradition of social capital have examined how individual well-being improves for those who have greater access to networks of these kinds (e.g. see Lin 2001; Robison, Schmid, and Siles 2002).

What is social capital for one level of examination is not social capital for another level of examination. One needs to be careful, therefore, about specifying precisely the level and context one is examining, else the term social capital may be 'applied to so many events and in so many different contexts as to lose any distinct meaning' (Portes 1998: 2). Examining social capital at each of these different levels sheds light variously on different facets of economic development.[3] There are some advantages associated with each different conception of social capital, but there are also some limitations.

The individual-level conception of social capital is particularly useful for examining issues related to upward mobility. Why some individuals succeed in improving their personal status through access to network connections is examined, for example, by Bian and Ang (1997); Burt (1997); Granovetter (1973, 1974); Lin, Ensel, and Vaughn (1981); and Wegener (1991). The results indicate that social capital so conceived makes a significant contribution toward status attainment by particular individuals.

What studies employing this conception of social capital do not examine, however, is how conditions get established that enable larger group of individuals to improve their material status collectively. According to Inkeles (2000: 247) 'what makes the study of social capital compelling is the assumption of added value . . . it permits communities to do what they could not do [without social capital] . . . By contrast, studies focused on the individual generally say nothing about added value, and concentrate rather on competitive advantage in the gaining of shares from a fixed pie. They almost invariably deal with a win-lose situation.'

It would be much more worthwhile in the context of economic development to establish how adding social capital can result in a win-win situation for both the individual and also the community at large. Such links between the individual conception and the community conception of social capital have not, however, been made so far, therefore, the individual-level conception of social capital cannot at this time tell us much about how communities or entire nations can also develop at a faster pace.

Studies that focus, instead, at the national level are much more concerned with identifying institutional arrangements of a formal and an informal kind that can help promote economic growth within a country (Knack 2002; Rothstein 1998). Top-down policies and programmes guided by such formulations have constituted the usual manner of intervening to promote faster economic development.

Research conducted so far does not provide any clear consensus, however, on what kinds of institutions are associated uniquely with superior economic development outcomes.[4] Not only measurement, but also identification issues remain controversial and unresolved, and Fukuyama (2004: 24–5), reviewing this literature, concludes that 'there can be no optimal set of [national] institutions … the same institution can promote or detract from economic performance depending on whether there are complementary institutions that promote its functionality.'

National plans and national institutions also affect different communities and different regions very differently (Ravallion 2001; Krishna 2004). Some communities are able to derive high benefits from these plans and institutions, but other communities get left behind. Stubborn pockets of poverty have emerged and become intractable even within countries that have on the whole experienced high rates of economic growth (CPRC 2004).

Dealing with enduring poverty and slow development in future will require to a large extent taking measures to assist such 'left behind' communities. Employing a community-based conception of social capital will be valuable in this regard. Why national plans and programmes have not worked so well within these communities will have to be better understood, and what community-level energies and resources can be mobilized and utilized better in future will also need to be known much better. Community-level institutions that support the formation of social capital and which facilitate its mobilization for economic development objectives will be important to examine. Equally important will be those mediating institutions, located between the community and the state, which enable (or prevent) communities from gaining access to opportunities provided by the state and by markets.

In section 4, I will present evidence which demonstrates how social capital so conceived has value for dealing with incidences of enduring poverty and underdevelopment. Before doing that, however, a brief discussion is required of some problems inherent in identifying and measuring social capital appropriately.

3. Measuring Social Capital

Even when one confines oneself to one particular conception of social capital—and I will here utilize the community-based conception—it is hardly straightforward to develop an appropriate measure for this concept. Social capital is a quality that exists inside people's heads; it can never be observed and measured directly. As Ostrom (2000: 179) states, social capital 'is embedded in common understanding rather than physically obvious structures'. Shared understandings are not themselves immediately visible or physically obvious, so they will need to be assessed using appropriate proxy measures.

Different proxy measures are likely to be more suitable for this purpose within different societal contexts. Density of membership in *formal* associations has been used as a proxy measure for scaling and comparing levels of social capital in the West. A considerable misunderstanding results, however, if this proxy measure is equated with the concept itself.

Formal associations are quite prolific in the West, but they are not so prevalent within developing countries. Eighty-five per cent of citizens in Sweden, 84 per cent in the Netherlands, 71 per cent in the United States, and 67 per cent in West Germany reported membership in at least one association. These proportions are much lower within developing countries. Thirty-six per cent of citizens in Mexico, 24 per cent in Argentina, 13 per cent in India, and even fewer in other developing countries are members of one or more associations. Even this low extent of associational activity is concentrated for the most part in towns, leaving the huge mass of rural residents unaffiliated with any formal organization.

This does not imply, however, that social capital is on the whole lower in developing countries. Diverse forms of human activity develop to deal with different needs and compulsions of life in different ecological and cultural settings. Networks, roles, rules, procedures, precedents, norms, values, attitudes, and beliefs are different among people who have different patterns of life. Proxy measures of social capital that are relevant for one set of cultures can be quite irrelevant for others.

It is not simply the fact of membership in any number of associations that induces a propensity for mutually beneficial collective action.[5] What matters more for social capital are attitudes and behaviours of different kinds that might be exhibited even without the support of any formal organization. A person might trust her neighbours implicitly and she might engage with them in collective efforts to clean and improve their neighbourhood—without the help of any formally registered association of neighbours.

In developing countries, particularly in the rural areas, it is informal rather than formal associations that have most value for citizens. Most collective action in the sixty villages that I observed in India occurs within mutual support networks that come together and disperse as the need arises. The only enduring evidence for the presence and efficacy of these networks exists in the cognitive maps that people in these villages carry around in their heads. Neighbours come forward to help neighbours at times of need, and it is known that such help will be offered and accepted. Villager helps villager in raising crops, in training children, in combating disease, in any number of tasks that are associated with life in these agrarian settings. Few formally registered associations exist, however, to assist villagers with such efforts.[6]

Features of social organization, which promote cooperation, including norms, networks, and social trust, are hardly non-existent in these communities, as these examples indicate. Formal organizations are, indeed, not much in evidence, but a scale of social capital which measures the density of such organizations to the neglect of all these other indicators will grossly underestimate social capital in these contexts.

More than 80 per cent of rural residents whom I interviewed in Rajasthan participate regularly in labour-sharing groups, sharing work either on their own fields or for some external employer. Sixty-three per cent stated that they had got together with others in the village one or more times in the past year to do something about a community problem; 64 per cent said that working in these and other informal networks was associated with feelings of trust for other villagers; 54 per cent of villagers expected that if some natural calamity were to occur, their entire village would come together and cope jointly with this situation; 92 per cent of villagers felt sure that if someone's house burned down in the village, the rest of the villagers would immediately come forward to help the affected family.

A locally relevant scale for measuring social capital in Rajasthan was devised by considering these types of activities with which people of this area are more commonly engaged. Social capital exists 'in the relations among persons'

(Coleman 1988: S100–1), and only those local activities were considered which inhabitants of this area usually carry out collectively rather than individually.

Detailed field investigations helped to identify six local activities that were used for assessing the strength of local networks and norms related to solidarity, reciprocity, and trust.

1. Membership in Labour-Sharing Groups: Are you a member of a labour group in the village, i.e. do you work with the same group very often, sharing the work that is done either on your own fields, on some public work, or for some private employer? Responses were coded as 0 for 'no' and 1 for 'yes'. These responses were aggregated for all individuals interviewed in each surveyed village, thereby measuring the proportion of villagers who participate in such networks.

2. Dealing with Crop Disease: If a crop disease were to affect the entire standing crop of this village, then who do you think would come forward to deal with this situation? Responses ranged from 'Every one would deal with the problem individually' (scored 1), 'Neighbours would help each other' (scored 2), and so on to 'The entire village would act together' (scored 5). Individuals' responses were averaged for each surveyed village.

3. Dealing with Natural Disasters: At times of severe calamity or distress, villagers often come together to assist each other. Suppose there was some calamity in this village requiring immediate help from government, e.g. a flood or fire, who in this village do you think would approach government for help? The range of responses varied as above from 'No one' (scored 1) to 'The entire village collectively' (scored 5).

4. Trust: Suppose a friend of yours in this village faced the following alternatives: which one would he or she prefer?

(*a*) To own and farm 10 units of land entirely by themselves (scored 1)
(*b*) To own and farm 25 units of land jointly with one other person (scored 2)

Note that the second alternative would give each person access to more land (12.5 units instead of just 10 units represented by the first option), but they would have to work and share produce interdependently. The question was framed so that the respondent was not making an assessment of his or her own level of trust, but rather of how trusting other people in the village were in general.

5. Solidarity: Is it possible to conceive of village leaders who put aside their own welfare and that of their family to concern themselves mainly with the welfare of village society? Responses ranged from 'Such a thing is not possible' (scored 1), to 'Such a thing happens quite frequently in this village' (scored 3).

6. Reciprocity: Suppose some children of the village tend to stray from the correct path, for example, they are disrespectful to elders, they disobey their parents, are mischievous, etc. Who in this village feels it right to correct other people's children? Four alternatives were posed: 'No one' (scored 1); 'Only close relatives' (scored 2); 'Relatives and neighbours' (scored 3); and 'Anyone from the village' (scored 4).

The results of factor analysis showed that these six items load highly on a single common factor, indicating that villages that have high scores on any one manifestation of social capital also tend to have high scores on the other five manifestations observed here. Because these items are so closely correlated with each other, village scores on the six separate items were aggregated to form a Social Capital Index (SCI).[7]

Mean score for villages on the Social Capital Index is 38.8 points (out of a possible 100 points) and standard deviation is 23.6. Eight villages out of 60 have scores of 75 points or more, including three of the sixteen case-study villages: Balesariya, with 88 points, leads this list, and Sunderchha (82 points) and Nauwa (74 points) are next. Twelve villages have scores of 25 points or lower, including four of the sixteen case-study villages: Kundai (21 points), Sare (20 points), Ghodach (18 points), and Sema (13 points).

It needs to be mentioned, however, that the set of six activities used to measure social capital in this context may not work equally well for this purpose in other developing country contexts, where collective action is manifested in different forms and embodied within different types of networks. The instruments that are used to observe and measure social capital will need to be calibrated anew for different contexts. A method for constructing similar indices in other countries has been developed, however, that builds upon field research conducted within different contexts (Krishna and Shrader 2000).

In these Rajasthan villages, however, high social capital as measured here manifests itself in multiple observable acts of cooperation and mutual goodwill, and low social capital is associated with less cooperation and lower expectations. In village Balesariya, for example, which has a high score on the Social Capital Index, trust, reciprocity, and cooperation are considerably in evidence. No walls separate the houses of this village, and doors are left open all day. Large numbers of villagers get together every Tuesday to sing devotional songs. Every household takes its turn to fill the communal trough for animals to drink; morning and evening, turns are taken by rotation. Water from an irrigation tank is also distributed by rotation. All households pay a fee to receive water, and this money is used to finance repairs and watchmen's salaries.

Trust and collective goodwill are nowhere nearly as manifest in Kundai, Sare, and Ghodach, where social capital scores are low. People in Ghodach are suspicious of each other, and they are constantly scheming to put each other down. People in Kundai speak guardedly. They are afraid that something they say will be misunderstood by a neighbour. There is an irrigation tank in Ghodach, but all households take water any time they can and there is no organization. People in Sare, Kundai, and Ghodach celebrate festivals only among family and close relatives. In Balesariya and Nauwa, the whole village turns out for major community events. In any emergency, villagers borrow money from other villagers, and they return these amounts as quickly as they can—without being charged any interest on the loan. In Ghodach, Sare, and Kundai, on the other hand, people can only turn to the professional moneylender at such times.

Scores on the Social Capital Index (SCI) are closely aligned to everyday manifestations of trust, goodwill, and reciprocity among villagers. It needs to be examined whether these scores are equally closely aligned to economic development performance.

4. Examining the Links Between Social Capital and Development Performance

Sixty villages were selected carefully for this study within five adjoining districts of the state of Rajasthan, and they include a diverse mix, including some that sit astride major roads and others that are relatively hard to access, single-caste-dominant villages as well as villages with mixed caste compositions, and larger villages together with smaller ones. A combination of case study and statistical methods was employed. Sixteen villages were investigated as case studies, and all sixty villages were studied through quantitative analysis of survey data.

A total of 1,898 residents of these sixty villages (average population: 1,254) were interviewed using a questionnaire that was developed at the end of an initial six-month long period of field study. The questionnaires were pilot tested in four villages before being refined and extended to the larger group of villages. Individuals to interview were selected through a process of simple random sampling from the adult population of each village. Friends who are villagers in Rajasthan formed a team of sixteen field investigators, equally men and women, and they assisted me in conducting this inquiry. Additional information was gathered from government departments' annual reports and by interviewing 105 city-based professionals, including government officials, party politicians, doctors, lawyers, and bankers, who have regular contact with villagers in these areas. In addition, focus groups were organized in public spaces in each of these sixty villages.

Economic development means different things to different people. For people living in these Rajasthan villages, *four* sets of outcomes are most important for defining benefits related to development performance. Livelihood stability is first among these important development outcomes, followed by employment generation, poverty reduction, and quality of basic services. These four development outcomes outrank by far any other outcomes that most villagers value in the economic realm. And it is hardly surprising why this should be so.

Living in a semi-arid region, where rainfall is scarce and highly variable—where most people depend on agriculture for a livelihood but most have relatively tiny plots—villagers in Rajasthan are very concerned about having food, fodder, and firewood available on a continuous basis. While food crops (mostly millets and maize and some wheat) are grown on privately owned land, fodder and fuelwood are collected mostly from common lands, which comprise between a third and a half of total village area in most cases. Protecting, preserving, and developing these common lands is a collective concern of villagers; and their performance in a programme of common land development—including aspects related to quantum of work done, protection provided, survival rates of plantations, and productivity—provided one indicator for examining the relative impact of social capital.

Employment generation provided a second indicator for comparing the utility of social capital relative to other bodies of social explanation. Nearly half of all village households, 45 per cent to be exact, depend for their subsistence on getting wage employment for at least one month each year. Such employment is obtained most usually from some government-sponsored construction work located near their village. The extent of success that different villages had in this regard—measured in terms of days of public works employment per capita averaged over the last five years—provided a second outcome indicator for examining the development impact that social capital can have in this region.

Poverty reduction benefits provided a third indicator. Nearly the same proportion of households who look for wage employment in order to make ends meet, 45 per cent, have incomes that are below the officially recognized poverty line in this region. Poverty grants per capita averaged over the preceding five years constitutes the third indicator for assessing social capital as a predictor of economic development outcomes.

The fourth and final development indicator that I considered relates to quality of basic services. Villagers are concerned to have better education and health facilities and clean drinking water. An index composed of their subjective assessments of service quality in these areas comprised the fourth aspect of development performance examined here.

These four development indicators are related to quite different aspects of development performance, but they are found on examination to be quite closely interrelated with one another. Villages that perform relatively well on any one of these four activities also perform comparatively better than other villages in each of the other three activities. Village scores in these four different activities are quite closely correlated with one another, and factor analysis shows that these scores align commonly on a single underlying factor.

High performing villages do well in general across multiple and different programmes. Low performing villages do relatively poorly overall.

The nature of the programme does not matter so much for development success or failure, these data show. Rather, there is some peculiar quality of villages that makes some of them perform well, by and large, and others perform poorly—no matter which development programme is taken up for comparison. In order to assess what this hidden quality might be—whether it is social capital or something else—I constructed a single Index of Development Performance (DEVINDEX), which combined together village scores on these four different activities. Different bodies of theory were consulted to identify alternative explanations for the observed variations in village development performance scores.

According to some observers, differences in caste, ethnicity, and wealth might limit villagers' potential for acting collectively for common development benefits. The following variables were constructed to assess the impact of *stratification and heterogeneity* on development performance scores.

The variable N_CASTES measures the number of different caste groups that reside in any village. This variable provides one measure of the extent of homogeneity within the population of a village, and it assesses the extent to which caste differences affect villagers' potential for collective action. The variable CASTE_DOM measures the proportion of village households that belong to the most numerous caste group.

Relative *modernization* might also make a difference to village performance (Inkeles and Smith 1974). Since the impulse of modernization and commercialization is likely to be less well felt within villages that are located farther from markets, the variable, DISTMKT, was utilized that measures the distance in kilometres to the nearest market town. The relative level of infrastructure facilities might also help to explain differences in development performance (Gaiha 1989). The variable INFRASTR combines scores for level of facility related to transportation, communications, electrification, and water supply.

Literacy matters for development performance according to some other observers, for instance, Dreze and Sen (1995), who propose that economic development in communities is expected to be closely related to educational achievement. LITERACY was calculated as the sample percentage of persons having five or more years of formal education.

An explanation of collective action based on a rational-actor premises would predict that communities whose members have a relatively greater sense of deprivation and more acutely experienced common need will be more likely to act collectively for this purpose (Wade 1994). This *relative needs* hypothesis was tested with the help of two independent variables: DRYLAND assessed the ratio of rain-fed (unirrigated) cropped area to irrigated cropped area, and PERCPOOR measured the percentage of village households that are poor in relation to the official poverty line.

In addition to these variables that are concerned with structural differences among villages, a number of agency variables were also considered for this analysis. The following agency forms are commonly functioning in these villages, and they are each regarded by some body of theory as having a significant (positive or negative) impact upon village development outcomes.[8] The effectiveness, utility, and range of functions of each type of agency differ from village to village, and I looked to these variations for developing scales for comparing agency strength.

- Traditional patrons: with the variable Str_PCR derived from scores on survey responses to nine questions on patron–client relations

- Leaders of different caste groups in a village: with the variable Str_CASTE derived from scores on survey questions related to strength of caste leadership
- Traditional village councils: with the variable Str_VC based on survey questions on strength of councils in the villages
- Officially local government (*panchayats*): with the variable Str_PANCH derived from survey questions on the strength of these elected bodies in the villages
- Political parties: with the variable Str_PARTY derived from survey questions about the activities of parties in the village
- New village leaders (village youth with some education who have come up within the past twenty years and who help other villagers establish contacts with state agencies and market operations):[9] with the variable Str_NEW based on scores on the existence, utility, and contact by villagers with such new leaders.

All of these variables, corresponding to different bodies of explanation, were considered—along with social capital—for understanding why some villages consistently outperform other villages in terms of development performance scores. Analysis showed that only three among these independent variables were significant, however, for explaining differences in development performance scores.

Results from regression analysis are shown in Table 16.1. Model 1 does not include social capital but it tests some other variables, including both structural and agency variables, in association with the dependent variable, DEVINDEX. Not one of the agency variables is individually significant, and none of the variables corresponding to structural theories, privileging stratification, relative need, and commercialization and modernization, respectively, is significant either. Only literacy matters. However, the fit of this regression equation is very imperfect. R^2 is only 0.12. The F-probability of 0.186 indicates that a regression model consisting of these structural and agency variables is not a good predictor of values of DEVINDEX.

Model 2 drops most of these non-significant structural and agency variables and it adds the Social Capital Index (SCI) to the equation.[10] R^2 improves, it now has a value of 0.28 (adjusted R^2 is 0.21), and the Social Capital Index has a significant coefficient, in addition to literacy, which remains significant as before.

Table 16.1. OLS regressions on development performance: DEVINDEX is the dependent variable

	Model 1	Model 2	Model 3
Intercept	22.4	−60.2**	−47.2*
	(15.7)	(24.7)	(22.9)
Independent variables (*a*) Societal variables			
DRYLAND	0.09	–	–
	(0.19)	–	–
PERCPOOR	0.79	0.61	0.52
	(3.48)	(3.21)	(3.24)
DISTMKT	0.21	0.30	0.27
	(0.39)	(0.36)	(0.37)
INFRASTRUCTURE	−0.24	–	–
	(1.77)	–	–
NCASTES	0.15	–	–
	(0.97)	–	–
CASTEDOM	–	−0.001	0.002
	–	(0.05)	(0.04)
LITERACY	1.14*	0.65*	0.52*
	(0.44)	(0.37)	(0.24)
(*b*) Agency variables			
Str_PCR	−0.14	–	–
	(0.68)	–	–
Str_PANCH	1.45	–	–
	(3.89)	–	–
Str_PARTY	0.97	–	–
	(5.39)	–	–
Str_CASTE	0.25	–	–
	(4.41)	–	–
Str_VC	−0.78	−0.89	−0.69
	(4.82)	(4.9)	(4.77)
Str_NEW	0.87	1.12	0.61
	(2.68)	(2.7)	(2.64)
(*c*) Social Capital (SCI)	–	1.10*	0.35
	–	(0.34)	(0.36)
(*d*) Interaction			
(SCI*Str_NEW)	–	–	0.08***
	–	–	(0.009)
N	60	60	60
R^2	0.12	0.28	0.43
Adj-R^2	0.04	0.21	0.34
F-ratio	1.56	3.39	6.27
F-probability	0.186	0.01	0.0001

Note: Standard errors are reported in parentheses. *p<=.05 **p<=.01 ***p<=.001

Source: Adapted from Krishna (2002*a*).

Model 3 retains all of the variables of Model 2. Additionally, an interaction term is added that is calculated by multiplying together SCI with STR_NEW, the variable that measures the capability of new leadership in each village.[11] Once again, literacy remains significant. The Social Capital Index loses significance, however, and the interaction term is revealed to be highly significant. Adjusted R^2 improves further to 0.37, and the F-statistics also improve considerably, indicating that Model 3 fits much better with the data at hand.[12]

Social capital and the capacity of new leaders both matter for development performance, and they matter in interaction with each other. It is the multiplication of these two variables in any village that is critically related to its level of development performance. The higher the value of social capital, the greater the effect made by differences in agency strength. Conversely, the greater the agency variable, the more the difference in performance on account of social capital. With the exception of literacy, none of the remaining variables matters much for economic development performance.[13]

High social capital is good for development performance, but this positive impact is made considerably larger when agency capacity is also high. And the impact of social capital is quite low (often close to zero) when agency capacity is very low or non-existent. 'Civil society requires political agency', suggests Walzer (1995: 14). The effects of social capital are considerably magnified when mediating agency is brought within the analysis.[14] Why should agency matter in this way?

5. Why Agency and Linkage Matter in Addition to Social Capital

Due to weaknesses in physical and particularly institutional infrastructure, communities in developing countries are only very poorly connected to the state and to markets. Such communities are not able to engage profitably with state and market agencies. The reason why agency matters in conjunction with social capital for economic development results has to do with this weakness of middle-level institutions in developing countries. Institutional connections between communities and markets and between communities and the state are quite often weak or non-existent. Thus, even when communities have a strong propensity to act together collectively for mutual benefit, they may not be able to connect efficaciously with the opportunities that exist in their external environments.

To succeed in achieving their collective goals, citizens must at a minimum be well informed about the processes of decision making in the state and in the market, and they must be able to gain access to the officials who make and implement these decisions. Information and access are not always available, however, in developing country contexts. Low literacy and poor-quality physical infrastructure contribute to this gap, but villagers' ability to obtain high-quality information is limited as well because of the weakness of middle-level institutions, those that stand between the grassroots and the national levels.

For instance, political parties and local government are both weakly organized in the Indian countryside, and neither parties nor local governments help villagers make effective connections with state agencies. To gain access to the offices of the state and to avail themselves of the benefits of government programmes, villagers must take recourse to agents who are available locally. Without the support of capable agents who help make fruitful connections for villagers, it is not clear to what ends they should target their collective efforts and what strategies they should adopt.

Weaknesses in middle-level institutions produce large gaps in information and access, and these gaps make it difficult for citizens to take full advantage of the opportunities for self-development that are made available by state organizations and market operations (Ostrom 1996; Tendler 1997). Agency becomes particularly important in these kinds of situations.

Middle-level institutions are weak not only in rural India, but also in other developing countries and countries undergoing transition from socialism, as verified by the following examples:

Russia
Informal (grassroots) and formal (state) institutions often contradict each other... Russia today continues to suffer from a *missing middle* of organizations linking informal grassroots networks and modern organizations.... this gap is sometimes filled by anti-modern enterprises run by ex-nomenklatura officials or by Mafia organizations. (Rose 1999)

Central America (five countries)
There are few 'local and accessible links between townspeople and government.' Locally-evolved 'community development organizations' act as local-level town governments and see themselves as responsible for making national and local governments more responsive to the townspeople. (Seligson 1999)

Uganda
Village residents in Uganda find it hard to connect with agencies of the state. What they know and what is available to them—their traditional laws and deliberative bodies—are not valuable for these purposes; and what is valuable—state programs and state assistance—is usually hard to access . . . Decentralization has not helped . . . to reduce this distance. (Opio-Odongo and Lwanda-Ntale 2000)

Ukraine
There was no one who could help the recently formed association of concerned parents for meeting with government officials and for influencing government policy with respect to the handicapped. Political parties rarely take up citizens' issues, and officials pay little heed to groups that have no official status and no mass following. (Sheremeta et al. 2000)

Bolivia
Bolivia's agrarian reform of the 1950s created an institutional vacuum in the rural areas . . . it annulled the old feudal patterns . . . but little was done by the state or its agencies to build linkages with peasant organizations. (Demeure and Guardia 1997)

National-level institutions and community-level social capital can both be made more productive in these contexts through policies that help construct effective middle-level institutions and build strong bridges over the existing institutional gap in the middle. Because strong middle-level institutions do not exist in these Indian villages, alternative avenues are resorted to instead. People in villages use the connections provided by their new village leaders in order to make more efficient use of their stocks of social capital. It is hardly clear, however, that such non-institutional avenues of mediation will be available or effective in all situations, and more particularly, whether they will remain reliable or accountable. Enhancing the productivity of social capital will require, therefore, investing in institution building at the intermediate level, i.e. within the vast uncovered areas between communities and the state and between communities and the market.

6. Conclusion and Future Research Directions

Social capital matters for communities' economic development performance, as the evidence presented in section 4 shows. Analyses undertaken in other parts of the developing world have similarly found a positive association between social capital and community development results (Grootaert 1998; Narayan and Pritchett 1997; Seligson 1999; Uphoff and Wijayaratna 2000). Increasing the stock of social capital should help, therefore, to improve development results among the communities so assisted.

Examinations in a variety of developing country examinations have also demonstrated the importance that mediating links have for improving the productivity of social capital (Krishna 2000, 2001; Lambright 2004; Meinzen-Dick, Raju, and Gulati 2002; Warren, Thompson, and Saegert 2001; Woolcock 1998). Enhancing the strength of the mediating links will also, therefore, be helpful. It will help by increasing the flow of development benefits that communities can derive from a given stock of social capital.

Two agendas for development practice emerge, therefore, and correspondingly two avenues of development research. First, it will need to be learned better whether and how the stock of social capital can be increased through purposive interventions. Second, it will also need to be learned how mediating links can be strengthened such that existing social capital can be utilized more productively.

Considerable uncertainty is associated with the first of these objectives, and it is not clear at the present time whether the stock of social capital can, in fact, be added to, particularly in the short to medium term. The evidence in this regard is mixed and so far inconclusive. Putnam (1993) proposes that social capital is accumulated only very slowly. 'History determines', they claim, and 'historical turning points ... have extremely long-lived consequences' (1993: 179). Other analysts consider, however, that social capital may not be a historically fixed endowment and that it might be possible to build up stocks of social capital within relatively short spans of time (e.g. Hall 1997; and Schneider et al. 1997).

Although results of careful research are still awaited that can help identify the sources of social capital, some reasons for optimism are seen in examples from development practice. Careful examinations of development results—by Fox and Gershman (2000); Hirschman (1984); Krishna, Uphoff, and Esman (1997); MacGillivray and Walker (2000); and Ostrom (1990)—provide examples where networks and norms built up in the course of programme implementation have continued to uphold cooperation among group members long after programme implementation has come to an end. It is not clear, however, that networks built purposively in this manner have *always* endured and supported collective action by communities.

More comparative research will help to pinpoint what exactly works for building enduring stocks of social capital in different circumstances. The fact that such efforts have succeeded in the past gives some cause for guarded optimism. The first important task for future research will be, therefore, to understand better how the stock of social capital can be added to, particularly within developing country contexts.

The second task will require examining better how mediating links can be strengthened, so that the productivity of existing social capital can be increased over the short term. Building appropriate middle-level institutions is critical in this respect. A number of different alternatives have been suggested in different literatures, including strengthening local governments, supporting civil society organizations, building political parties, and instituting business-government partnerships. What remains to be undertaken, however, is a more systematic comparison of the strengths and weaknesses that these different middle-level institutions have within different situations and contexts. Just as standardized top-down solutions have not worked very well for promoting better development performance (Ostrom 2000; Uphoff 2000), so it is not certain that one-size-fits-all solutions will work for improving the mediating links. More contextualized research is required for this purpose.

A third remaining task of research is related to building better analytical connections among the three competing conceptions of social capital. How is the individual-level conception related, respectively, to the community-level and the national-level conceptions? Uniting results derived from studies employing different conceptions can be potentially very rewarding. However, theoretical and analytical links have yet to be made between these different conceptions of social capital.

Undertaking these remaining tasks of research more effectively will further entrench the usefulness of social capital for various economic development objectives. Already, however, the value of adopting a social capital perspective has been considerably well demonstrated. By freeing up space for communities to plan their own futures, and by forcing national planners to recognize that communities are not all alike, concern with social capital focuses attention on a bottom-up dynamic of development that complements and enriches the usual top-down discussions on this subject.

Notes

1. Since contracting and monitoring are costly and often impossible and third-party enforcement is impractical, especially in developing countries, voluntary cooperation engendered by stocks of social capital has particular value for economic development (Ostrom and Ahn 2001).
2. In addition, networks of an international nature have also been found important for several economic development tasks (Keck and Sikkink 1998; Slaughter 2004).
3. The three levels of examining social capital discussed here correspond in many ways to three of the four views of social capital discussed by Woolcock and Narayan (2000), namely, the networks view, the communitarian view, and the institutions view. The fourth view that these authors discuss, i.e. the synergy view, considers interactions between the state and societal organizations as its locus of inquiry. While the synergy view has been associated principally so far with the national level of examination, it can be associated as well with each of the other two levels.
4. Some important debates are long-standing in this literature, but there is hardly any closure in sight. One prominent but still inconclusive debate concerns whether democratic forms of government are more conducive to economic development compared to dictatorships. See, for example, Barro 1997; Przeworski et al. 2000.
5. Additional problems related to measuring associational membership appropriately are discussed by De Ulzurrun (2002).
6. Analysts examining social capital in other developing country settings have similarly found informal organizations more important. See, for example, Knox and Meinzen-Dick (2001); Molenaers (2003); and Place et al. (2002).
7. Cronbach's Alpha coefficient = 0.91. The single common factor accounts for 3.68, or about 61 per cent of the combined variance of the six individual items. Each item is given an equal weight within the Index, which is obtained by summing across the scores after first dividing each variable by its range, so that each item has a maximum range of one. A further transformation results in an index that has a range from zero to hundred, which is useful for interpreting regression results. An alternative index was constructed by weighting the individual items with their factor scores. The two indices are highly correlated with one another (0.98), indicating that this index is robust against alternative weighting schemes.
8. For detail on the definitions of each of these variables and underlying theoretical literature, see Krishna 2002*a*.
9. A long-time observer of village politics described these new leaders to me in the following terms: 'They are usually between twenty-five and forty years of age ... [and] educated to about middle school [level]. They read newspapers,

have low-level contacts in numerous government offices, and are experienced [in dealing] with the government bureaucracy and with banks, insurance companies, and such like . . . Their caste does not matter. These new leaders can be of any caste, but they must have knowledge, perseverance and ability.' With the help of my team of field investigators, I interviewed nearly 120 such new leaders, and I found that they had come up and gained influence mostly within the past two decades. The spread of primary education in rural areas and also expanded interface with state and market agencies had contributed to the rise of these new leaders in villages. For a more detailed discussion of cause and effects related to the emergence of these new village leaders, see Krishna (2002*a*, 2003). The dynamic of leadership evident here is similar in many respects to that described, albeit for a different context, by Oliver (1984).

10. Alternative formulations of Models 1 and 2 were considered using different combinations of variables along with the Social Capital Index. However, the results did not change in terms of which variables achieved significance. SCI and Literacy were consistently significant, and none of the other variables was significant.
11. Interactions of SCI and each of the other five agency variables were also separately tested in regression analysis, but these variables did not achieve significance, indicating that it is a particular type of agency which mobilizes the stock of social capital for development purposes in these villages.
12. The value of the Condition Index is 24.68 for model 1, indicating moderate collinearity, and it is less than 15 for Models 2 and 3, indicating low collinearity.
13. Some other hypotheses related to inter-community differences in development performance were also tested. Knight's (1992) hypothesis that collective action is most likely to arise on occasions when the power-holders in a society are most in need of the rewards was tested by looking at the distribution of animal ownership by households. In addition the importance of government staff support was also examined. Differences in the motivation and competence levels of government staff assigned to work with different villages, and in the extent to which they participated in the community's activities, were assessed through asking respondents about how frequently staffs of the concerned department visited their village and also by assessing the percentage of villagers who would recognize by sight the local staff of the concerned department. However, none of the associated variables was significant for the analysis.
14. The concept of mediating agency (and linkage) as utilized here is similar in some respects to what some analysts have referred to as 'bridging' social capital (e.g. Putnam 2000), but it is also different in some significant respects. First, the links envisaged here can have positive as well as negative results for society overall. Second, these links are provided quite often by individuals and not by social networks, so it is hard to conceive of them as *social* capital of any kind.

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CHAPTER 17

MICROFINANCE AND SOCIAL CAPITAL

LAURA FOSCHI

Over the last ten years, microfinance programmes have come to be considered as one of the most successful instruments for alleviating poverty. On 15 December 1998, Resolution 53/197 of the United Nations General Assembly declared 2005 the international year of Microcredit, confirming the official and general consensus regarding the diffusion of microfinance programmes.[1] This message was further reinforced the following year with the conferment of the Nobel Peace Prize on Muhammad Yunus, the founder of the Grameen Bank.

With repayment rates of over 95 per cent, microfinance programmes obtain financial sustainability within relatively few years of the programme's launch and through their financial facilities are capable of reaching millions of poor people throughout the world. In an age characterized by reduction in international donor funding, the above features have convinced most international cooperation organizations actors to replicate microfinance best practices all over the world. Thus, in recent years special attention has shifted to the financial performance and sustainability of microfinance institutions, with less attention paid to poverty alleviation and the social impact of microfinance programmes. As a consequence, the social implications of such programmes have either been overlooked or taken for granted.

Nonetheless, the successful spread of microfinance is due to the assumption that local social networks, between people who know and trust each other, are able to reduce the failures of financial markets in developing countries. In this sense, information sharing and collective action among social network members produce mutual benefits. Social networks are therefore considered as a resource or 'capital' for microfinance programmes. This leads to several important questions. First, is the conceptual link between social capital and microfinance unproblematic, even when one considers hierarchical social relations or social networks that produce discriminatory and negative effects on some members of the community? Second, if social networks are a resource for microfinance, how does microfinance affect the interactions among participants or between clients and their relatives or amongst community members? Finally, how can microfinance practitioners improve their intervention in poverty alleviation by utilizing theories of social capital? This chapter addresses these questions.

Section 1 briefly introduces microfinance with regard to the challenges facing development countries. The financial markets of developing countries, for example, are characterized by greater asymmetric information and moral hazard problems than their counterparts in developed countries. In general, the presence of development banks and governmental credit programmes has not brought about significant changes. As a consequence, approximately 90 per cent of households in developing countries have no access to credit and savings facilities (Robinson 1995),[2] and a lack of financial facilities exists in both urban and rural areas, even though it takes different manifestations.[3]

Nevertheless, developing countries are characterized by a strong presence of informal finance actors who provide financial facilities, forms of moneylending, informal saving and credit associations, and can help complete the framework in which low and very low income people daily face their financial needs. Some of these informal associations have been the source of inspiration for microfinance programmes.

Section 2 outlines the different approaches to social capital and uses them to point out the social features characterizing different microfinance experiences. In it, we first analyse horizontal social networks, which represent the most direct link between social capital and microfinance. These social networks, typified in informal saving and credit associations, have been used as a form of collateral by microfinance practitioners. Secondly, in this section we look at the hidden aspects of the social relationships as these operate in microfinance transactions. For example, in some cases hierarchical relationships between microfinance operators and borrowers are more important for repayment success than horizontal social networks. Finally, in this section we assess the impact of microfinance on social capital itself. Microfinance programmes are external interventions into a particular socio-economic context and as such they cause change in target populations as well as in the overall community. Group lending methodologies, for example, promote group formation, repetitive behaviour, and information sharing that should create new forms of aggregation among people, which in turn are useful for reaching economies of scale in enterprise management as well as health or educational services. Microfinance can also help reduce the distortion effects that such 'bonding' forms of social capital can have, particularly in traditional societies where women have been oppressed historically.

Section 3 looks at the efforts that microfinance practitioners have made in order to take on board the more social dimension of their work. It emerges that the focus of microfinance practitioners has been on clients and their level of poverty. This focus is due to the fact that the definition of social performance can differ among practitioners. Nevertheless, some studies have analysed the programmatic impacts on client relations, even if these analyses are considered too expensive and more appropriate for donors and regional policy makers than for the microfinance organizations.

In the conclusions, we make a brief assessment of possible future developments in microfinance.

1. Microfinance Practices

Most developing countries are characterized by dual financial markets in which formal institutions coexist with informal actors (Adams and Fitchett 1994). The addition of semi-formal actors into this characterization, however, provides a more complete picture of the financial services available in each developing country.[4] Microfinance is part of the financial market in different countries. It can take the form of formal and semi-formal institutions, but may also deliver services through informal actors.[5] Microfinance programmes were started more than twenty years ago in developing countries, ostensibly to overcome the lack of financial services for the poor.[6]

The term microfinance refers to all the financial services (loans and/or savings) provided by programmes, non-governmental organizations (NGOs), or even banks to assist low-income people who are economically active, yet have no access to commercial banks.[7] This definition of microfinance, which includes all kinds of financial services and microcredit, is then a specific aspect of microfinance in which only credit is offered. Microfinance programmes are initiatives that have been promoted mainly by international NGOs, but also by development banks and local actors such as cooperative banks, to give poor people access to specific financial services that contribute to the fight against poverty. Nowadays microfinance services are provided by a variety of institutions. Though these services may be provided either formally or informally by traditional actors of the local financial market, most of the time, they give life to a new class of actors that offer specific financial products (i.e. dedicated local NGOs or microfinance institutions).[8] These providers usually have a dual aim since they pursue both financial and social objectives (Helms 2006).

The first microfinance experiences started in South Asia and have since spread to Latin America, South East Asia, Africa, and more recently China, the South Pacific, Central and Eastern Europe, and the New Independent States (CEE/NIS).[9] Microfinance initiatives have become common in a large number of countries, and adopted as part of many international cooperation projects, while being recognized as 'an integral part of our [United Nations Organization's] collective effort to meet the Millennium Developments Goals' (Secretary General Kofi Annan, 29 December 2003).[10] Today, microfinance involves a kaleidoscope of organizations differing in dimension, methodology, institutional approach, services, and internal organizations. The 2005 Report of the Microcredit Summit Campaign emphasizes both the reach of microfinance and its poverty alleviation goal:

> As of December 31, 2004, 3,164 microcredit institutions have reported reaching 92,270,289 clients, 66,614,871 of whom were among the poorest when they took their first loan. Of the poorest clients, 83.5 per cent, or 55,622,406, are women. . . . assuming five persons per family, the 66.6 million poorest clients reached by the end of 2004 affected some 333 million family members. (Daley-Harris 2005: 1)

There are two primary reasons for the successful diffusion of microfinance. First, it overcomes some of the financial criteria imposed by traditional banks, which effectively bar the poor from accessing loans. It thus enables poor people to access financial services targeted at them (e.g. no collateral, no traditional banking methodologies).[11] Second, it allows the possibility of contributing to local economic development with sustainable, and in some cases profitable, organizations.

Microfinance programmes are characterized by two important features: first, the people targeted (i.e. those who have no access to commercial banks), and second, the way in which the service is provided. The latter defines the kind of methodology that a microfinance provider can use, and it is strictly related to aspects of social capital. In fact, microfinance organizations have experimented with a variety of techniques and methodologies, resulting in a multitude of ways in which microfinance is being carried out in practice.[12]

Microfinance methodologies are principally divided into two groups: individual lending or group lending. Individual lending methods are similar to the techniques used by the traditional banking sector, but in microfinance programmes there is closer and more frequent contact between microfinance staff and clients and products are tailored to meet the specific needs of the client's business. Technical assistance and training is often provided to the client.[13]

Ingroup lending methodologies, loans are offered to clients by using a group guarantee for the repayment of each client's loan. Group lending methodologies can, in turn, be divided into lending to Community Based Organizations (CBOs) or Solidarity Group Lending (SGL), where the solidarity group is principally considered as a guarantee mechanism.[14]

An important set of microfinance techniques is based on solidarity group lending schemes. The Grameen Bank[15] represents the most famous of these. In it, a 'solidarity group' carries out typical banking operations such as client selection, risk monitoring and enforcement for loan repayment. In the Grameen Bank scheme, groups consisting of five or fewer members meet weekly to collect money and have joint liability for loan repayment. The Grameen bank has a social element requiring, for example, clients to adhere to principles promoted by the Grameen bank and the creation of an emergency fund to assist members or clients.

Lending to CBOs (i.e. village banking, self-help groups, or ROSCAs)[16] involves providing loans to larger groups (from twenty to 100 people). The group manages and mobilizes the received fund and then provides loans to its members. Members are normally asked to save money, to adhere to the group and, depending on the adaptation of the method, the group elects a president, a credit committee to determine loan delivery, and a treasurer. The NGO FINCA International has had twenty years' worth of experience in promoting village banking methodologies in developing countries. FINCA can be considered the pioneer of village banking methodologies in promoting microfinance. This method, when compared with the individual or the solidarity group method, gives clients more decision-making power on who can borrow, how much, and for what purposes. The 20 to 50 neighbours who come together to form village banking groups are autonomous in managing their microcredit programme. Furthermore some programmes promoted by large NGOs add welfare components, such as health and educational matters, to financial services.[17]

2. The Link Between Microfinance and Social Capital

Even if microfinance programmes are based on different methodologies, most microfinance analyses concerned with social capital have taken group-lending schemes into consideration. Serageldin and Grootaert argue that

> group lending schemes rely on social capital to defeat information asymmetries that cause financial market failures. Institutions [formal and informal] can help disseminate adequate, accurate information that allow market players to make appropriate, efficient decisions. Group-based lending schemes are a case in point. These schemes ... work because members have better information about each other than banks do. (2000: 48)

But what is the concept of social capital on which such group lending schemes are based? Most authors rely on either Putnam's or Coleman's understanding of it. Putnam's narrow definition of social capital refers 'to features of social organisation, such as networks, norms, and trust, that facilitate coordination and cooperation for mutual benefit. Social capital enhances the benefits of investment in physical and human capital' (1993: 35). According to this definition, social capital is considered as the totality of horizontal associations whose key elements include cooperation and mutual benefit, and democratic participation in rules and norms.

According to Coleman's broader concept, social capital 'is defined by its function. It is not a single entity but a variety of different entities with two elements in common: they all consist of some aspect of social structure, and they facilitate certain actions of actors—whether personal or corporate actors—within the structure' (1988: S98). In this sense, social capital comprises a wider set of relations, and does not rule out the possibility of negative outputs for some of the actors involved. Coleman states, for example, that 'a given form of social capital that is valuable in facilitating certain actions may be useless or even harmful for others' (Coleman 1988: S98).[18]

The distinction between 'bonding' and 'bridging' social capital is another important aspect of the analysis of social capital. According to Woolcock (2002), the former refers to relations among relatives, close friends, and neighbours, while the latter refers to less intimate acquaintances, associates, and colleagues. But there is also a vertical component to social capital, 'the capacity to leverage resources, ideas and information from formal institutions beyond the community is a key function of linking social capital. A multi-dimensional approach allows us to argue that it is different combinations of bonding, bridging, and linking social capital that are responsible for the range of outcomes' (2002: 27). Bonding, bridging, and linking social capital may also have negative impacts that can result in the discrimination and exclusion of some individuals and groups in the process of wider poverty alleviation.[19]

Horizontal Social Networks

Issues of social capital in microfinance programmes have often been associated to ROSCAs and other informal saving groups. As already mentioned, ROSCAs are based on social networks in which information sharing, trust, reciprocity, collective decision making, and norms of functioning are part of the ROSCA mechanism. According to Ito, 'the group mechanism is associated with social capital mainly as a result of its "horizontal" social structure—in other words, social capital is viewed as residing in the horizontal relationships among borrowers who are organised into groups' (2003: 324). Group membership provides an advantage to participants in terms of improved income or ensuring facility access. The horizontal organization embedded in ROSCAs and savings groups incorporates Putnam's definition of social capital. To van Bastelaer, ROSCAs are 'a widespread way to crystallize social relations in an informal credit delivery system' (2000: 2).

In microfinance group lending methodologies similar aspects of social capital emerge, and the 'social collateral', i.e. the formed group, is generally considered as the social capital element upon which successful microfinance programmes are built. As Matin points out,

> ... joint liability is an effective and least costly incentive making the borrowers use their knowledge about each other in screening the 'right' people (thereby overcoming the hidden information problem), engaging in peer monitoring (thereby reducing the hidden action problem) and exerting peer pressure (thereby alleviating the imperfect enforcement constraint). (1997: 262)

Ito (1998: 325) also suggests that

> Peer pressure itself can be viewed as an element of social capital inasmuch as it is embedded within the horizontal structure of the ROSCA membership. In group-lending microfinance programs participation is promoted by an external agent, the NGOs for example. Under the joint liability arrangements the borrower takes over the lender's responsibilities for selecting other borrowers, monitoring their repayment behaviour and taking action, if necessary, to enforce repayment.

Upon first analysis, peer monitoring is seen as a successful way to exploiting social capital so to reduce financial market imperfections in developing countries. But if one considers some of the implications of microfinance in terms of social capital, other elements tend to emerge.

Vertical Relationships

Several authors point out that neither joint liability nor the contingent renewal that enforces it[20] are as effective as they should be in ensuring repayment arrangements. Other types of pressure and relationships, however, play a significant role in successful microfinance outcomes. According to Woolcock, microfinance success depends on different types of social relationships that are mobilized by group lending microfinance programmes.

> Repayment and cost efficacy in microfinance depend on relations among borrowers (horizontal relationships), relations between borrowers and the field agent[21] (mainly vertical relationships), relations among staff members. Mobilizing and maintaining those relations are the key institutional linkage that shape how group-based microfinance programs work. (1999: 16)

Some case studies demonstrate that the hierarchical relationships that develop between borrowers and microfinance institution staff provide a more effective repayment incentive than peer pressure. In these case studies,[22] there is evidence that microfinance programme staff take detailed records of client repayment rates. This produces considerable pressure on borrowers and in several cases has completely changed in practice what microfinance mechanisms in theory were supposed to do; social collateral and contingent renewal, as incentive to repay loans, are substituted by pressure exerted by microfinance programme workers. This practice creates an underlining hierarchical patron—client relationships between borrowers and microfinance programme workers.

> … borrowers are loosely united by a sense of serving a common 'patron' whose discretionary power to sanction loan applications serves as the biggest incentive to act as they are told. In this patron–client relationship, it is not difficult for bank workers who are under tremendous pressure to maintain high loan recovery rates, to pass the pressure onto the members who will then feel obliged to demonstrate their allegiance to their 'patron' through exercising peer pressure on those facing repayment problems. As Montgomery (1996) reports in reference to BRAC's Rural Development Programme, the dynamic of this 'staff pressure' sometimes leads to violent collective action by fellow members against defaulters. (Ito 2003: 328)

As Ito (2003) suggests, this vertical relationship between microfinance programme workers and borrowers looks like the typical 'patron–client' relationship of rural Bangladesh.

According to Jain and Moore (2003), microfinance programme workers follow the same 'procedures' of traditional moneylenders. In case of default, field staff exert pressure on the borrower as well as on the members of the group (who are supposed to be co-responsible for the loan repayment). If further pressure is necessary, field staff also involve the secondary group that participates in weekly meetings and whose members are not responsible for repayment but could still exert pressure on defaulters.

> Pressure on defaulters to repay appears largely to entail ceaseless follow-up and hectoring to propel the defaulter to find the required money, even if that meant borrowing from another source. … traditional moneylenders follow similar recovery procedures: ceaseless follow up and use of influential local people to exert pressure.
>
> (2003: 16–17)

Although it is important to ensure that pressure does not become destructive or overly negative for the clients, vertical social relationships are another element of local social capital that contribute to the success of microfinance programmes. It may be impossible to determine which type of social network, horizontal or vertical, is the most effective in ensuring repayment arrangements, but it is evident that both elements are the social basis on which microfinance programmes are built.

Microfinance Impact on Social Capital

In microfinance programmes, mechanisms based on social capital, like social collateral, peer pressure, or patron–client relationships[23] take the place of traditional collateral and reduce the information asymmetries present in financial markets. But another aspect that relates microfinance to social capital is the impact that microfinance can produce on existing social capital.

As Fisher and Sriram's (2002) review of the literature suggests, the key question is whether social capital is a means through which it is possible to supply efficient and sustainable microfinance services for the poor, or whether the reverse applies, and microfinance is the means and social capital the end. Considering social capital and microfinance in terms of the horizontal and/or vertical relationships that we have so far discussed, the emphasis seems to be on considering social capital as a means. But those analyses that are not exclusively limited to financial sustainability, or to repayment performances,[24] take microfinance to be a tool in the creation of social capital, which in its turn is instrumental for fighting poverty. Within such a context, an analysis of programme design and social appropriateness becomes fundamental.

Mayoux is one of the authors who more clearly embraces such a position by paying particular attention to non-strictly-financial variables. In her Cameroon study, Mayoux (2001) maintains that the creation of positive social capital becomes conceivable when other development aims are linked to the financial aims of microfinance programmes. She also demonstrates, however, that the injection of capital into existing organizations, networks, and rules of associations can undermine the financial sustainability of the programme. She concludes that 'where microfinance programmes have merely used existing forms of social capital to reduce costs, benefits for women [clients of the programme] have been limited' (2001: 458).

Nevertheless, even if few studies assess the impacts of linking social capital to microfinance, the following examples illustrate how microfinance programmes can favour the creation of social capital. As external interventions, microfinance programmes produce changes in the communities and villages in which they have been implemented. These changes should also be analysed in terms of social capital.

Anderson, Locker, and Nugent (2002) outline how new social capital can be created by microfinance programmes through meetings and other services such as education and training. This allows members of the community to acquire new skills that enable collective action. The periodic meetings necessitated by microfinance programmes assist villagers in better designing, developing, and managing community projects.

> Regular meetings, repeated interaction, and common credit goals can facilitate the communication, knowledge about fellow actors, common understanding about incentive structure and trust prerequisite to collective action. By nature of its credit activities, microfinance adds further incentives for cooperation by increasing the anticipated payoffs and lowering discount rates. (2002: 15)

Individual lending programmes also promote collective action and create new horizontal associations. The CAM project (Bercovich 2004), for example, provided incentives for microenterpreneurs belonging to the same sector of activities to meet periodically to share information on the market, new legislation and technology, etc. This helped participants manage their microenterprise and created a group rapport based on trust. The organization produced several products for the common use of the members, such as a catalogue, and enabled members to buy cheaper goods from common suppliers. Similar examples can be given for most microfinance programmes.

Anderson, Locker, and Nugent (2002) provide empirical evidence that microfinance programmes are able to create social networks. In 1999, the Microcredit Summit surveyed over 147 microfinance practitioners. Almost 50 per cent responded that social cohesion was the most important impact of the credit and other financial services provided by their organization.[25]

Larance's (1998) results from a study of one of the centres of the Grameen Bank reinforce these findings. Most of the interviewed female members of the Grameen centre, while waiting to pay for their instalments, spent their time talking and sharing information with other members of the centre. All of the women interviewed believed their interaction at the centre meetings enabled them to expand their existing network. Important changes resulted from the greater opportunity the Grameen centre gave them in moving out of the closed family circle. Seventy-one per cent of women respondents reported that before participating in the programme they did not know the village's geography, and 82 per cent had not visited or interacted with other women from the centre before becoming members. According to Larance (1998: 20), 'the women's interaction apart from center meetings often begins for business purposes—by discussing alternative economic opportunities or helping with loan repayment.' As found in the above-mentioned CAM experience, and in Larance's analysis, newly formed economic ties between members of credit programmes produce outcomes that can be used by all participants, such as an avenue for exchange of limited resources (clothes for ceremony, knowledge, etc.).

Ismawan (2000) gives another example of the impact of microfinance programmes on existing social capital. Programme headquarters frequently provide a venue for villagers to meet and discuss common problems, such as damaged roads or irrigation systems. Mutual awareness and connectivity in turn provides opportunities for searching for possible solutions and mobilizing collective action. Another example of strengthening existing social networks is the savings that groups collect for social purposes; Ismawan highlights how government intervention destroyed this practice and how it was reinstated after a microfinance programme. Moreover, the creation of new social capital can also affect villagers who do not directly participate in the programmes. In the Larence (1998) study, no directly involved villagers perceived this change as positive, either in terms of reduction of social conflict among women of the community or in terms of their inclusion in the economic and social networks generated by villagers directly involved in the programme.

It is worth highlighting, however, that some authors are also becoming aware of some potentially negative effects of microfinance programmes on social capital. Microfinance programmes can both strengthen and destroy information sharing, coordination of activities, collective action, trust, and reciprocity. Two examples can usefully illustrate the problem. For example, in the BRAC experiences the activities of moneylenders were reduced because more advantageous services were offered by the programme. In this instance, new forms of microfinance destroyed the links of trust, information exchange, and related activities that had previously permitted villagers to receive loans from moneylenders. Even so, the microfinance programme improved the quality of service and enabled democratic participation in the management of the village's financial resources. In this case, though the programme damaged an existing source of social capital, the new substitute eliminated most of the negative features of the previous system. Another form of pre-existing social capital has been interrupted, 'the traditional leader does not wield widespread influence as before. For instance, while people may continue to look to religious leaders for spiritual guidance they will no longer turn to them if they have financial problems' (Ismawan 2000: 20). Furthermore, new leadership emerges that is strictly limited to the role they play in the microfinance programme. Morover, a more democratic management of local economic resources represents an improvement upon previous social arrangements, for resource distribution is no longer subject to the judgement of a 'local chief', who decides on the religious and moral values of the community.

Other studies show ways in which microfinance can weaken family ties. The MIDE[26] case study, for example, analyses a programme that targeted Peruvian women living in rural areas. According to this study, the condition of these women, of very low self-esteem, illiteracy, and domestic violence, was one dominated by the men of the family, but could nonetheless be characterized as a form of bonding social capital.[27] In such conditions, microfinance programmes by developing solidarity group methodologies, self-help, and literacy helped the women to better their conditions, thus building new forms and circles of social capital, but at the same time weakening family ties.

3. The Role of Microfinance in Building Social Capital

Different forms of social capital not only pre-exist microfinance programme implementation, but they also play a role in the functioning of the programme itself. Microfinance programmes can also have an impact on building or modifying existing social capital. Many microfinance schemes have based their programme design and implementation on a presumption of knowledge about social relationships, and only after an in-depth analysis has it emerged that several forms of social capital, rather than simply horizontal networks, have intervened in the success of microfinance.

Microfinance is not only about financial performance and financial service delivery. As previously mentioned, most microfinance service providers are interested in poverty alleviation and outreach as much as in financial sustainability. This dual purpose makes knowledge of existing relationships amongst the targeted individuals essential for microfinance implementation.[28] An important first step is the analysis of relationships between informal actors such as moneylenders and the targeted individuals as well as traditional patron–client relationships. Moneylenders offer financial products in the local market that should be studied to allow the programme to offer more appropriate services to targeted people. Moreover, analysis of social capital and the study of its characteristics can show the practitioner the best way forward in terms of outreach and sustainability. This is most important where targeted clients are women, especially women who live in a 'bonded' relational system. Much of the literature on microfinance demonstrates that gender empowerment can be a result of the microfinance programme but only when there is some understanding of existing social contexts. If 'getting the social relations right' is a crucial component of both the means and ends of development and of fighting poverty (Woolcock 2002), the link between social capital and microfinance must be explored in some detail.

Indeed, networks of microfinance practitioners and researchers are taking practical steps to explore and clarify the social concerns linked with microfinance. The SEEP Network,[29] for example, provides best-practice studies and methodologies concerning the impact assessment of microfinance programmes. This analysis focuses on the clients and their participation in the programme, thus trying to determine how programmes and services affect clients. Research on impacts of microcredit programmes catalogues and manages information on client profiles, benefits to participation, when the impact occurs, at which level it occurs (individual, enterprise, family/household, community), and the matching to the financial needs of their clients.

Many of these impact assessment instruments make use of concepts related to the social capital literature. For example, they investigate the use of loans (as well as eventual savings services), decision making on how to distribute economic income within the family, responsibility for repayment within the family itself, change in available revenue, self-esteem, and the ability to face crisis and to negotiate with others or with relatives.

Although most case studies and implementation tools are limited to the investigation of the clients and their financial needs, thus developing similar goals to those of traditional marketing analysis; there are instances in which it has been attempted to analyse the social impact of microfinance programme participation on the family, the community, and the social context. In fact, even if the direct social outcomes of a microfinance programme, such as raising awareness about health issues, encouraging children's education, and promoting women's empowerment within households, are relatively well documented, the wider impacts of microfinance programmes are less frequently considered. These impacts relate to social inequalities such as the lack of participation of poor people, particularly women, in public decision making forums and so on (Kabeer and Mosley 2004).

Instruments that document wider social impacts are expensive and less directly useful for microfinance organizations. Mosley (2000) underlines that when the reference group of the impact assessment is the 'wider context' (e.g. employees, borrowers from other organizations, poverty levels, 'social capital', and cohesiveness), this is more useful to either the sponsor or to the agents within the 'wider context' (e.g. regional governments and economic developments organizations), but less so for the microfinance organizations.

> This is why they [the wider effects of microfinance programmes] tend to be seen as public goods, useful for 'the microfinance community as a whole' but less so for the individual microfinance organisation, and this is why the burden of calculating them tends to fall on external sponsors. (Mosley 2000: 2)

In spite of the perceived high cost of wider social performance assessment, some newly developed tools have opened methodological avenues, which could be improved by the conceptual contribution of social capital experts. The concept of social capital could be useful in determining the most methodologically appropriate instruments with the awareness that they are dealing with social capital and not simply with family and within family relationships. Some attempts have already been made, in particular regarding the general context. For example, studies by Mayoux (2001) and Larance (1998) consider relational issues as conceptually part of the general debate on social capital. In her field study Revolledo-Wright (2004: 10) pays attention, besides to material and financial factors, at 'relational changes [which] refer to decision making power, ability to negotiate change, organisational strengthening and changes in relationships within and outside the household'.

The work carried out by the Imp-act Consortium[30] and the CERISE[31] group addresses similar concerns to those touched upon by the social capital literature. They focus on the 'social performance' of the microfinance organizations, where social performance refers to the microfinance programme success in meeting the goals of its social mission. 'Social performance is the effective translation of the social mission into practice. The social value of microfinance relates to the way financial services improve the lives of poor and excluded clients and their families and widen the range of opportunities for communities' (IFAD 2006: 8). This social performance approach raises awareness among microfinance institutions that the delivery of financial services can have an impact on the existing social capital. The methodology proposed by CERISE is based on indicators and the assumption that microfinance can build social capital but that awareness of the microfinance institution is essential.

> Fostering social capital can be done with different methodologies . . . careful group formation but also collective action, cooperation towards common goals, relationships with other programmes. The methodologies should improve people's capacity to cooperate and to come together to achieve common goals. However, social links can also have some drawbacks: autocratic relationships, dependence, conflicts of interest, etc. Social links within a group should not lead to a fragmentation of the original bonds of a community . . . and may create more exclusion. The MFI [microfinance institution] needs to measure the advantages in social cohesion in cooperation and in teamwork between clients and the community. (CERISE 2005: 41)

4. Conclusions

Microfinance can play an important role in development and poverty alleviation. However, facilitating access to financial services is neither the only goal of microfinance institutions nor the only effect they produce. The majority of operators are aware of the strong link between social capital and microfinance but often this link is not studied in depth, instead it is taken for granted that social capital is the instrument for the development of microfinance. But as practitioners stress 'the role of social capital can be viewed as a central element [of microfinance programmes]' (DFF 2004: 5).

In reality, however, this role is dual; on the one hand, social capital is a resource for the microfinance programmes, which can improve credit access by the poor. On the other hand, microfinance can favour the creation of new social capital. Microfinance and social capital are linked in this causal relationship (Fisher and Sriram 2002) and should be taken into consideration in the design, implementation, and monitoring, or rather in all the phases of the microfinance programme.

Does social capital introduced by microfinance always contribute to poverty alleviation in a positive manner? What are the implications when social capital is only the means for the ends of microfinance? And what impact do microfinance programmes have on pre-existing social capital? In particular, these last two questions refer to the fact that external intervention caused by a microfinance programme can also have negative effects on social capital, destroying social ties or family structures through intervention which is too fast or which worsens the living conditions of the clients. It is difficult to foresee these negative impacts when focusing only on the financial aspects of the microfinance programme in consideration. Instead, practitioners and policy makers should consider social capital to avoid replicating programmes with negative consequences.

Particular attention should be given to all the links that exist between microfinance and the concept of social capital. Two directions of actions should be considered. One is a greater understanding of how the methodological instruments for social capital and microfinance promotion are related, if at all. As seen above, some attempts have already been made, but there is still scope for refining both the indicators and the analytical instruments in order to compare the results obtained on either front.

On the other hand, there is the need to facilitate both the creation and the diffusion of tools dedicated to analysing the impact of microfinance programmes on social capital itself. As discussed in the last section, such tools should not be the preserve solely of policy makers and donors (Mosley 2000), but should also be used by practitioners. Knowledge of the positive correlation between microfinance and social capital formation is important for practitioners and should orient their attempts at development and growth.

Notes

1. 'The Resolution designates the year 2005 as a special occasion to give impulse to microcredit programs in the world and invites governments, the UN system, the NGOs involved, civil society, private sector and the media to give relevance to the role of microcredit in eradicating poverty' (United Nations General Assembly Resolution A/58/488; UN 1999).
2. It is important to add that financial sector failures are not a prerogative of developing countries, Woolcock (1999) underlines that 80 per cent of the world's population is without access to credit and savings facilities and that family members and friends cover the financial services demand most of the time. Moreover, in industrialized economies, lack of financial services is limited to a range of people (such as the unemployed, immigrants, young or elderly people, etc.) also excluded from other kinds of services, thus no access to financial service is a cause of social exclusion. For this reason, microfinance and microcredit

programmes in Europe and in Canada, for example, have been delivered with the high concern of the government and/or local authorities and credit access is explicitly included in public policy statements (Levesque and Mendell 2002; Sullivan 2002; New Economic Foundation et al. 2001).

3. Commercial banks, in general, do not want to enter the market because they are remunerated enough from their existing portfolio. 'Official statistics indicate that the share of the informal economy in the non agricultural workforce ranges from 55% in Latin America to 45%-85% in different parts of Asia to nearly 80% in Africa. Not only is the informal economy large, it is also growing and promises to continue to do so. This is of concern since there is a link between working in the informal economy and being poor; the link being stronger for women than for men' (Carr and Chen 2002: 3).
4. Among others see Bouman (1977), Siebel (1994), and Lelart (1990).
5. Adams and Fitchett (1994) give an overall presentation of informal finance and its characteristics.
6. Among others see Viganò (1996) and Hulme and Mosley (1996) about the failure of private and public financial sectors that prompted international non-governmental organizations and some developing banks to start microfinance programmes.
7. A similar definition of microcredit is proposed by the Microcredit Summit for which microcredit refers to programmes that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor people (Daley-Harris 2004).
8. The range of financial institutions serving low-income clients are: state-owned agricultural development, and postal banks; members-owned savings and loan institutions; other savings banks; low-capital local and/or rural banks; and specialized Microfinance Institutions of varying types (Helms 2006).
9. The appeal of microfinance in providing financial services to the poor has also reached industrialized economies and programmes based on group lending or microcredit delivery have been implemented in Europe, Canada, and USA; see among others Viganò, Bonomo, and Vitali (2004) and Zephyr (2004).
10. The Secretary General's Draft Programme of Action [A/58/179] presented in December 2003 at the General Assembly to coordinate the 2005 International Year of Microcredit.
11. The difficulty in access to credit for poor people is part of the general problem of credit rationing. In markets with asymmetric information problems such as moral hazard or adverse selection can reduce the access to loans to potential clients, developing countries' financial markets problems linked to imperfect information are made worse, and this reduces the provision of financial facilities. Among others see Stiglitz and Weiss (1981), Stiglitz (1990).
12. Among others Remenyi (2000), Wright (2001), Ledgerwood (1999), and Zeller and Meyer (2002) give an overall idea of the types of microfinance providers, their methods and their results.

13. Several programmes that intervene by giving credit to individuals use goods such as refrigerators or agricultural equipment as collateral.
14. A solidarity group is also seen as Social Collateral as will be mentioned in section 2 of this chapter. See also Besley and Coate (1995).
15. Grameen is perhaps the most studied and analysed of the microfinance experiences. Other organizations have implemented microfinance programmes by adapting the Grameen model.
16. Rotating Saving and Credit Associations (ROSCAs) are present in almost all countries and are completely informal. ROSCAs function as a group of individuals that periodically meet each other, during the meeting each member gives the group a small, and normally fixed, amount of money, except one person in the group that, in turn, receives the pot. At the end of the rotation, each of the group had received the pot once. The service provided by a ROSCA is, at the same time a savings and a loan (for the one receiving the pot) service. ROSCA functioning is based on the knowledge and the trust of all the participants. For the financial facility offered by the ROSCAs, the group itself, or rather, the social relationships, play an important role in the risk management of the 'clients'. In fact, in case of default, exclusion from the association means not only no more access to loans, but also receiving social sanctions (van Bastelaer 2000: 3).
17. For example *Credit with Education* is the worldwide strategy of the NGO Freedom from Hunger; it brings self-help solutions to the fight against hunger for poorer women and provides educational services and health services through self-help groups constituted to receiving loans.
18. A third and most broad view of social capital includes the macroeconomic environment and adds to horizontal and hierarchical organizations, 'formalized' institutional relationships and structures, such as governments, political regimes, the rule of law, court systems, and civil and political liberties. See North (1990) and Olson (1982), both cited in Grootaert (1998), for studies of this concept of social capital.
19. See among others Briggs (1998), Barr (1998), Narayan (1999), Kozel and Parker (2000), all cited in Woolcock (2002).
20. The contingent renewal means that the access to future credit for all group members is denied in case of default by any member. But also contingent renewal is not always the key social factor that allows a microfinance programme to perform well; case studies provide evidence of the limited role of contingent renewal. See Van Bastelaer (1998).
21. In microfinance practices, field agents are those microfinance workers who directly have contacts with clients, they relate with all the members of the group, they promote group formation and frequently they are part of the socio-cultural local context (i.e. they belong to the same ethnic group of the clients). Field agents also go to meet clients in their working sites, they analyse their repayment capacity, they submit the request for a loan to the staff of the microfinance agency. Field agents also monitor the clients'repayment history.

22. For complete case studies see, among others, Jain and Moore (2003); Jain (1996); Ito (1999); Montgomery, Bhattacharjya, and Hulme (1996).
23. Several examples demonstrated that microfinance programmes are based on social capital, also those that are simply individual credit. The example of Safe-Save, which promotes individual lending in Bangladdesh (Ito 2003), imitates what moneylenders offer in the local market (Morduch 2000) and is based on lessons learned from informal finance.
24. The microfinance sector is dominated by a significant debate between the supporters of the institutionalist or minimalist approach and supporters of the welfare or integral approach. The former emphasize the exclusiveness of the financial service or the economic-financial sustainability of the institution providing while the latter focus on objectives such as poverty alleviation and on the improvement in the living conditions of the poorest. Regarding this debate and the different approaches see, among others, Woller, Dunford, and Woodworth (1999) and Morduch (2000).
25. Evidence on the creation of this social cohesion is found in many experiences in the field even though they have not been studied with scientific rigour.
26. SOS FAIM (2002).
27. See Part II of this charter.
28. Several guidelines as well as practitioners' handbooks provide information on the importance of the knowledge of the local social network to implement a microfinance programme. See among others Wright (2001), UNDP (1997), Sheldon and Waterfield (1998).
29. The Small Enterprise Education and Promotion (SEEP) Network is an association of more than fifty US and Canadian NGOs that work with local organizations throughout the world on microenterprise development. SEEP engages in research, documentation, and training activities aimed at improving members' practice. The SEEP network is involved in the larger AIMS (Assessing the Impact of Microenterprise Services) project founded by USAID.
30. The Imp-Act Consortium comprise' microfinance practitioners and international NGOs: CARD MRI, EDA rural systems, Freedom from Hunger, IDEAS, the Microfinance Center for Central & Eastern Europe and the New Independent States, and the Microfinance Council of Philippines.
31. CERISE stands for the Comité d'échange, de Réflexion et d'Information sur les Systèmes d'Epargne-crédit.

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CHAPTER 18

SOCIAL CAPITAL AND ECONOMIC PERFORMANCE IN TRANSITION ECONOMIES[1]

MARTIN RAISER

1. Introduction

Economic and political developments in Eastern Europe and the former Soviet Union over the past fifteen years have been characterized by a pattern of divergence. In the western part of the region, transition to markets and to democracy has been rapid, culminating in the accession of eight countries to the European Union in May 2004. In the south-east and eastern parts, transition has been slower, politics has been more volatile, and economic performance has lagged behind the Accession Countries.

Would an observer in 1989 have predicted this variation? On what might she have based her judgement? In the early 1990s, one of my colleagues at the

Kiel Institute of World Economics, once semi-seriously remarked that if he were asked to make a prediction on the outcome of the transition he would start by looking at the map of the former Holy Roman Empire, combining essentially the territories of the Habsburg monarchy (including Croatia, the Czech Republic, Hungary, the Slovak Republic, Slovenia, as well as parts of Romania and Southern Poland) with those of the smaller German states. Countries within this territory would succeed whereas countries outside it would struggle. It is striking and disarming for a transition economist to see to what extent this prediction has been borne out by developments in the past fifteen years (*insert here a figure with maps of Habsburg and German Bund 1815 and today's EU borders*).

Is one therefore to resign oneself to the fate of path-dependent history, or are there mechanisms behind such apparent path dependence, which if uncovered, could reclaim some room for policy choice? This question was very much at the heart of Robert Putnam's (1993) seminal work on the performance of political institutions across different regions in Italy. Putnam argued that varying degrees of social capital lay behind the enduring variation in the quality of governance and the functioning of democracy in northern and southern Italy. Social capital in Putnam's application of the term to comparative political analysis includes both the normative basis of society, and the structure of its social networks. For Putnam, in northern Italy the existence of networks of civic engagement (such as his famous examples of choir societies or bowling leagues) outside traditional extended family bonds generated trust among their members and encouraged collective action, in turn improving the functioning of the regional government and public confidence in political institutions. Policies aimed at facilitating civic engagement might over time change the normative basis of southern Italian states and help them overcome their economic and political backwardness.

This chapter reviews the existing literature on social capital in transition economies and investigates to what extent Putnam's explanation for divergent developments in Italy may hold clues for an account of divergent economic performance in Eastern Europe and the former Soviet Union. I concentrate on empirical studies of economic outcomes and do not discuss variation in political developments and the consolidation of democracy. By and large I find that while social capital has a clear economic payoff, it is unlikely to have been a binding constraint on transition progress. Instead it seems that social capital can be accumulated in part as a result of economic reform.

There is therefore no reason to be overly pessimistic about the apparent divergence in economic performance between East and West among the transition economies.

The literature reveals a great deal of variation in the choice of measures for social capital as well as its correlates.[2] In the Appendix to this chapter, I organize all the empirical studies reviewed into five broad categories ordered by the relevant outcome under investigation: (*a*) studies that compare levels of social capital in transition economies to market economies at the aggregate level; (*b*) studies that seek to explain the variation in aggregate economic performance among transition economies such as measured by growth rates or GDP per capita with reference to variations in social capital; (*c*) studies where the outcome to be explained is a firm level measure of performance such as sales growth or profits; (*d*) studies where the outcome is a measure of a firm's willingness to trust business partners, i.e. a measure of the quality of the contracting environment; and (*e*) studies where the outcome is a measure of the trust of enterprises or households in public institutions.

The structure of the chapter broadly follows this organization. I begin in section 2 with some conceptual clarifications that highlight in particular the economic consequences of trust and social networks. Section 3 then reviews comparative studies at the aggregate country level to search for the role that social capital, and in particular networks that facilitate civic engagement may have played in determining varying transition outcomes. Section 4 turns to enterprise level studies on the role of networks for contract enforcement and the generation of trust between firms, as well as their impact on enterprise performance. Section 5 turns to the determinants of trust, distinguishing between trust in the state and trust in other individuals. Section 6 offers some policy conclusions.

2. Social Capital: Trust and Networks

Social capital may be defined as consisting of 'norms and networks' in a society, which generate benefits to its citizens by overcoming opportunism in bilateral exchange relations, facilitating collective action and promoting good governance. The role of 'trust' is central to most discussions on social capital, although there remains disagreement in the literature about whether trust is *part* of social capital (Ostrom and Ahn 2001) or whether it is *produced* by it (Putnam 2000).

The role of trust in overcoming opportunism in typical prisoners' dilemma situations in bilateral exchange is by now well established (see Platteau 1994*a*, 1994*b* for an extensive review). Different types of relationships between two contracting parties give rise to different types of trust. The first type of relationship is among kinship groups and family members. These relationships dominate economic transactions in subsistence economies and still characterize reproduction and the household economy. Transactions between members of a kinship group are based on what Zucker (1986) calls 'ascribed trust'. The second type of relationship is between individuals that have known each other for a long time, without sharing the loyalty to a specific group. Transactions in this case are repeated and trust is 'process-based'. Most business networks are characterized by this type of repeated relationship and the prevalence of process-based trust (McAuley 1963; Johnson, McMillan, and Woodruff 1999, 2002). The third type of relationship is between individuals, who enter into a transaction with only limited information about the counterpart's specific attributes (Offe 1999). For economic exchange to take place between these types of individuals, generalized or 'extended' trust is needed. Alternatively, such individuals can trust a third party, such as the state, to enforce contracts between them. As Offe points out, trust in the state and trust in anonymous others often goes hand in hand (see also Rothstein 1998).

Several authors have argued that the first two types of relationships discussed above are sufficient to describe the role of social capital in social and economic exchange. Accordingly, each individual or firm has access to a different set of social and business networks, and these networks create social capital for their members (Foley and Edwards 1999). Non-members are unable to appropriate this social capital, which is a resource that accrues to specific groups much like other economic resources. Yet this concept leaves no role for social capital in generating collective action across a wider community or supporting economic exchange among distant strangers, which is so characteristic of modern market economies.[3] The view taken in this chapter is, therefore, that extended trust is a critical element of a concept of social capital that can help to explain divergent economic outcomes at the level of aggregate societies and economies.

A critical point of debate is whether such extended trust can be generated through the social interaction that individuals have in multiple social networks, because the positive feedback received by trusting other group members increases an individual's propensity to have a positive, trusting outlook on life. This is the position taken by Putnam (1993, 2000). Stolle (1998) and Uslaner (2001) argue instead that an individual's propensity to trust is something instilled through socialization and part of her moral predisposition, rather than a result of positive feedback through civic engagement. Yet the environment in which one becomes socialized may well have much to do with the quality of civic life more generally. The point is that if extended trust is generated as an externality from civic engagement and the formation of social and business networks, this externality should not be sought among group members only but rather at the level of the community at large. Note that the externality can be either positive (as posited by Putnam for institutions such as choirs and bowling leagues) or negative (as in the case of the Mafia, the Ku Klux Klan or other largely defensive networks) (see e.g. Warren 2004). One should therefore perhaps not be surprised to find a weak correlation at the aggregate level between density of group membership and generalized trust (Norris 2001).

One particularly important type of collective good is good governance. A key argument in Putnam (1993) was that the quality of governance in different Italian regions had more to do with the level of social capital than with other characteristics such as the party political landscape, the level of income, or the social characteristics of the population. The reverse causation may also be important, however. Trust in public institutions, such as in the honesty and impartiality of courts and the police, or the availability of a social safety net, may be important factors in encouraging the emergence of extended trust (Offe 1999; Rothstein 1998).

Woolcock (1998) has provided a conceptual synthesis that distinguishes three types of social capital, which correspond relatively closely to the three types of trust discussed above. Accordingly, 'bonding' social capital is formed between family members and other social groups living in close proximity with a significant degree of emotional involvement. 'Bridging' social capital brings together individuals from different social groups to facilitate horizontal association within a society. 'Linking' social capital supports the hierarchical relationships between citizens and people in authority, most usually in government. Woolcock (1998) and Easterly, Ritzen, and Woolcock (2000) emphasize the importance of linking social capital for determining whether a government is likely to succeed in the implementation of economic policies to improve growth prospects and living standards.

3. Social Capital, Reforms, and Transition Outcomes

A number of researchers have attributed the unexpected sharp declines during the initial transition period to weaknesses in informal institutions needed to support a functioning market economy. Murrell (1992) was an early sceptic of radical transition strategies, highlighting the inherently path-dependent nature of institutional change and advocating a gradual reform strategy. Stiglitz (1999) prominently suggested that radical economic reform, in particular mass privatization without due attention to the existing structure of implicit control rights might have destroyed the social capital embedded in existing production relations. Blanchard and Kremer (1997) provided a model that attributed the decline in production in transition economies to the 'disorganization' resulting from the break-up of existing supply chains.

More recently, researchers have asked whether different levels of social capital might explain the emerging differences in performance within the group of transition economies. Thus, some have suggested that the Western-influenced model of transition might have been ill-suited for countries in the former Soviet Union that had never undergone a process of socio-economic modernization, and had been subjected to the distortions of central planning for close to three generations.[4]

This body of literature makes a strong case that the lack of social capital or indeed the destruction of social capital through radical reform may be a key obstacle to successful transition. Yet empirical tests for this hypothesis are relatively rare. Political scientists pointed out fairly early that the transition economies were collectively characterized by considerably lower levels of civic engagement than market economies that had recently undergone a process of democratization (Fish 1995; Rose 1993). Howard (1999) confirms that this was still the case by the mid-1990s.[5] Shleifer (1997) was the first to look for evidence in support of the hypothesis that variation in social capital might explain the variation in transition outcomes within the group of former socialist economies. Using data from the World Values Survey 1990, he noted that Poland and Russia had almost identical levels of trust at the start of transition, and thus there was no empirical support for the view that different levels of social capital could explain Poland's relative success and Russia's relative failure.

However, Shleifer's 'test' is based on the contrast of just two countries, and focuses solely on *generalized* trust as the key indicator of social capital. The hypothesis that social capital matters for transition outcomes receives greater support from studies looking at levels of civic engagement as measures of social capital and not just at levels of generalized trust. Haerpfer et al. (2001) and Raiser (2003) provide systematic analyses of the correlation between indicators of social capital at the country level and transition outcomes. Haerpfer et al. (2001) draw on two sources of data to argue that social capital matters to explain different transition outcomes. The first is the World Values Survey (WVS), implemented in fifteen transition economies in 1990 and in twenty transition economies in 1995. The second source of data is the Eurobarometer, a household survey implemented in all Eastern European countries as well as in Russia, Belarus, and Ukraine for six consecutive years 1993–8 (more recent waves of data exist but have less complete country coverage). Haerpfer et al. establish the following main findings:

- The transition economies have significantly lower levels of civic engagement than market economies, even controlling for differences in per capita incomes. Moreover, the level of civic engagement correlates positively with economic growth in transition economies between 1989 and 1998, at least when data on civic engagement for 1995 is used. Table 18.1 reports the levels of civic engagement for the transition economies in 1990 and 1995 and averages for the OECD and selected developing countries.
- Generalized trust, as measured by the WVS, is also significantly lower in transition economies than in OECD countries.[6] However, trust is not lower than in comparable developing countries and it does not correlate positively with economic growth in the transition economies. Table 18.2 reports the trust scores for the transition economies in 1990 and 1995, as well as average scores for the OECD and a selection of developing countries.
- Using data from the Eurobarometer, there is a clear positive correlation between levels of trust in public institutions and economic performance. In particular, Haerpfer et al. stress the role of trust in law enforcement institutions as an important determinant of transition outcomes—a result that finds support in the micro-level studies examined below.

In Raiser (2003), I build on the work of Haerpfer et al. and examine in particular the robustness of the results that link civic engagement to economic performance in the transition economies. I argue that a key channel through which civic engagement might improve economic performance is

Table 18.1. Civic engagement in transition economies, OECD, and low/middle-income countries

	Membership 1995	Active membership 1995	Active membership 1990
Albania	10.4	3.9	–
Armenia	–	2.5	–
Azerbaijan	9.7	1.2	–
Belarus	9.8	1.1	–
Bulgaria	9.5	1.5	3.0
Croatia	–	6.6	–
Czech Republic	10.4	4.4	–
Estonia	9.8	2.1	4.4
Georgia	9.6	2.1	–
Hungary	10.3	5.0	1.9
Latvia	9.9	2.5	5.1
Lithuania	9.5	1.6	3.7
Macedonia	10.9	4.3	–
Moldova	9.4	3.6	–
Poland	–	1.3	–
Romania	10.6	5.2	3.4
Russia	9.8	2.1	2.9
Serbia and Montenegro	–	2.4	–
Slovakia	10.4	3.9	–
Slovenia	10.7	4.8	2.1
Ukraine	9.7	10.3	–
Averages	–	–	–
CEE	10.1	3.2	*na*
SEE	10.3	4.0	*na*
CIS	9.7	2.0	*na*
OECD	12.1	11.0	4.9
Low/middle-income	–	–	–
countries	11.8	*10.1*	*na*

Notes: Data are taken from two sources. Active membership from Haerpfer et al. (2001) is defined as the percentage of the population saying that they are actively engaged in a civic organization, averaged over nine such organizations (the church, sports clubs, arts clubs, trade unions, political parties, environmental groups, professional associations, charities, and others not specified). Unfortunately, this source does not include developing countries. The latter are covered by Norris (2001) which provides data only for group membership, whether active or not. The correlation between the two measures across transition economies and OECD countries covered by both sources is high, however, at 0.8. Using this correlation to predict values for active membership for developing countries, I represent a 'predicted' low/middle-income average in italics in column 2. Data for 1990 are from Haerpfer and limited to a subset of transition economies and OECD countries only.

OECD includes: Australia, Finland, Germany, Japan, Korea (South), New Zealand, Norway, Spain, Sweden, Switzerland, USA. Countries in italics have data for 1995 only.

Low/middle-income countries include: Argentina, Bangladesh, Brazil, Chile, China. Columbia, Dominican Republic, Ghana, India, Mexico, Nigeria, Peru, Philippines, South Africa, Turkey, Uruguay, Venezuela.

Table 18.2. Generalized trust in transition economies, OECD, and low/middle-income countries

	Trust 1995	Trust 1990
Albania	27.0	–
Armenia	24.7	–
Azerbaijan	20.5	–
Belarus	24.1	25.5
Bulgaria	28.6	30.4
Croatia	25.1	–
Czech Republic	28.5	30.0
Estonia	21.5	27.6
Georgia	23.4	–
Hungary	22.7	24.6
Latvia	24.7	19.0
Lithuania	21.9	30.8
Macedonia	8.2	–
Moldova	22.2	–
Poland	17.9	34.5
Romania	18.7	16.1
Russia	23.9	37.5
Serbia and Montenegro	30.2	–
Slovakia	27.0	23.0
Slovenia	15.5	17.4
Ukraine	31.0	–
Averages	–	–
CEE	22.5	*na*
SEE	23.0	*na*
CIS	24.3	*na*
OECD	43.7	48.4
Low/middle income countries	19.2	26.8

Notes: Data are from three sources. Data for 1995 are from Haerpfer et al. (2001) for the transition economies and for OECD countries and from Norris (2001) for low/middle-income countries. For 1990, data for transition economies and OECD countries are from Haerpfer et al., data for developing countries are from La Porta et al. (1997). Generalized trust as conventional in this literature is the percentage of respondents in a country that thought that 'most people could be trusted'.

OECD includes: Australia, Finland, Germany, Japan, Korea (South), New Zealand, Norway, Spain, Sweden, Switzerland, USA.

Low/middle-income countries include: Argentina, Bangladesh, Brazil, Chile, China. Columbia, Dominican Republic, Ghana, India, Mexico, Nigeria, Peru, Philippines, South Africa, Turkey, Uruguay, Venezuela.

Countries in italics have data for 1995 only.

through improved governance, because an active civil society might provide pressure for greater accountability and transparency of government. I show that this channel is indeed present and that controlling for the quality of governance (using the World Bank's governance indicators) there is no independent positive correlation between civic engagement and economic growth in the transition economies. However, it is not possible in the aggregate to isolate the impact of social capital from other potential determinants of good governance such as better education, reduced information costs, and others.[7]

The aggregate country evidence linking social capital to economic performance across transition economies suggests that, if anything, civic engagement is one among several positive correlates of success in transition. Moreover, there is a puzzling disconnection between the evidence on civic engagement and economic performance in transition and the lack of any reflection of this relationship in measures of generalized trust. I will return to this issue in section 18.5, when I look at studies that have trust as a dependent variable.

4. Business Networks, Contract Enforcement, and Enterprise Performance

While the impact of networks of civic engagement on aggregate economic performance may not be easy to isolate from other relevant factors, this is less of a problem when examining enterprise data. Several studies investigate the direct link between enterprise reliance on different types of social and business networks and their performance. Using a sample of Russian enterprises surveyed in 1994, Recanatini and Ryterman (2000) show that enterprises that were members of business associations were able to mitigate the output decline resulting from the costs of disorganization during the early transition years.[8] The authors also demonstrate that the costs of disorganization were higher in firms that were subject to direct monitoring from the central planning centre, rather than subject to monitoring by regional branches of industrial ministries. Their analysis confirms both the importance of business networks for firm performance and that, as coordination shifted from the plan to the market, it was the creation of new networks rather than the reliance on old connections in the central planning apparatus that helped enterprises adjust (see also Sedaitis 1997 for a similar argument using a study of Russian goods markets in the early 1990s).[9]

Batjargal (2003) also examines the role of different types of business networks in supporting enterprise performance—measured by sales growth and profitability—in a sample of Russian firms. Rather than drawing a distinction between old and new networks, Batjargal distinguishes between 'strong ties', based on close personal relationships, and 'weak ties', characterized by greater flexibility and casual acquaintance rather than personal friendship. He also measures the extent to which networks contain businesses from sectors other than the firm's own sector, and whether there are high-ranking government officials, bank managers, or other individuals with access to important resources among the network of friends and acquaintances. Batjargal shows that weak rather than strong ties are associated with better performance, and while the resourcefulness of an enterprise's network does not matter for performance, the resources actually mobilized through the network do. The sectoral heterogeneity of a network does not have any impact on firm performance in this study.

Business networks in Russia would thus appear to be in a state of considerable flux and those firms which are able to reach out beyond the circle of family or friends are most likely to be successful. This conclusion is also reached by O'Brien (2003) looking at a sample of rural households in Russia. The most successful households in terms of output sales were those most involved in community-wide activities and investing in associated 'bridging' social capital. However, for most farmers, short-run coping strategies have involved reduced community investment and greater reliance on strong ties with friends and family. Yet O'Brien shows that as reforms progress, as evidenced by the development of land and rural credit markets, investment in bridging social capital at the community level also increases.

The studies reviewed so far examine the impact of business networks on enterprise performance directly. While such a direct link is indicative of the importance of networks for performance, it lacks a strong theoretical foundation. An alternative approach is to examine the role of networks in contract and property rights enforcement and thus in encouraging firms to trade and invest. Greater economic exchange in turn leads to higher firm output and indeed higher aggregate output through the benefits of specialization.

The most important set of results following this approach are due to John McMillan and Chris Woodruff (McMillan and Woodruff 1999*a*, 1999*b*; Johnson, McMillan, and Woodruff 1999, 2002; Woodruff 2002), who use trade credit between enterprises as a measure of the trust between them. The argument is that if a firm is willing to grant one of its customers trade credit, it must believe that it will be repaid. Trade credit is therefore a good example of a business transaction across time, involving a certain degree of confidence or trust in one's business partner. Other factors will determine the propensity of enterprises to grant trade credit, such as the costs of switching to an alternative customer. In a series of studies first on Vietnam and later on five Eastern European countries, the authors show that trust between a supplier and a customer is significantly influenced by switching costs (due to technology and asset specificity), the length of the business relationship, the degree of confidence of the supplier in third party enforcement through the courts, and by whether the customer was introduced to the supplier through a social or business network (i.e. the presence of reputational enforcement mechanisms).

The authors also show that relational contracting and confidence in the courts are substitutes—trust in the courts was an important determinant of trade credit only among pairs of firms that had traded with each other only for a short period of time. However, trust in the courts (or in the state more generally) may be precisely what is needed to encourage firms to seek out new contacts and thereby expand welfare through a greater division of labour. In support of this view, Woodruff (2002) shows that contract enforcement through reputational networks and enforcement through the courts may be complements. A certain basic level of confidence in third party enforcement through the courts is needed for firms to build the kind of bridging social capital embedded in social and business networks beyond the extended family.

Frye (2004) uses a similar approach in investigating the determinants of trade credit, as well as enterprise investments in fixed assets. The former is interpreted as a measure of trust in other firms, the latter as a measure of confidence that a firm's property rights will be upheld in future. Frye shows that membership in a business association has a positive impact both on trade credit and on investment, in line with results obtained by Recanatini and Ryterman (2000) and confirms the importance of credible third party enforcement through the courts. In an interesting expansion of the results of McMillan and Woodruff, Frye shows that what is particularly important, is the credibility of the courts in protecting enterprises against government authorities. I will return to this theme further below, where I argue that it is the fairness and impartiality of courts that matters for the development of economic exchange.[10]

So far, I have reviewed studies that estimate the direct benefits of social and business networks to firms themselves. The question of whether such networks have positive or negative externalities at the level of the wider society and economy has been left open. McMillan and Woodruff (1999*a*; 1999*b*) and Johnson, McMillan, and Woodruff (1999, 2002) also investigate the potential costs of reliance on reputational networks in terms of reduced competitiveness of input markets. Relational contracting and contracting based on social or business networks is only effective when exit costs from such networks are high—in other words: loyalty to existing suppliers is the cost a firm must be willing to pay in order to earn their trust. Johnson, McMillan, and Woodruff show that customers that were linked to their suppliers through repeated trade or through a reputational network were significantly less likely to switch to alternative suppliers, even if their current suppliers were to raise their prices by 10 per cent above those of their competitors. The majority of firms said that they would continue to trade with their existing suppliers but would buy some inputs from the new, cheaper suppliers—thus gradually building new relationships able to generate sufficient trust. By contrast to contract enforcement through networks or relational contracting, confidence in third party enforcement through the courts unambiguously reduces loyalty and hence increases the competitiveness of markets.

Pyle (2005) provides an interesting extension, using the same data set as Johnson, McMillan, and Woodruff (1999,2002). He shows that business associations are important conduits for reputation flows, even if the possibility of direct contact between members of a business association is controlled for (in others words, gossip about third parties matters). However, business associations acted more effectively as mediators of information on suppliers than on customers. The use of business associations as mediators of information appears therefore to be strategic and depends on market structure. In more competitive markets, reliance on reputational networks is both less necessary because exit costs are lower and potentially disadvantageous because it could provide access to strategic information to one's competitors.[11]

My own research with Alan Rousso and Franklin Steves (Raiser, Rousso, and Steves 2003) also builds on Johnson, McMillan, and Woodruff (1999, 2002) in investigating the role of relational contracting, reputational networks and confidence in the courts in fostering trust among firms. Drawing on a large survey of firms in twenty-six transition economies (the Business Environment and Enterprise Performance Survey—BEEPS, see Fries, Lysenko, and Polanec 2003 for details), we investigate the determinants of trust simultaneously at the firm and at national level. Taking country averages in our main independent variables, we can distinguish between firm level and aggregate level effects, thus providing a direct measure of the externality generated by different kinds of networks. Our measure of trust (or rather distrust) is the average level of prepayment in an enterprise's total sales. The higher the demands for prepayment on average, the lower an enterprise's trust in its customers. We prefer this measure of trust to trade credit, given concerns that some trade credit in transition economies may be involuntary and reflect soft budget constraints rather than trust between firms. We find that different types of networks differ significantly in the extent to which they generate trust among firms. In particular, firms that rely significantly on government sources for information on potential new customers demand much higher levels of prepayment than firms relying on alternative networks for information. Networks of friends and family are also more effective at building trust than networks based around existing customers and suppliers. Membership in business associations is associated with lower prepayment demands. These results echo the findings of Recanatini and Ryterman particularly in stressing the importance of breaking up old ties with the government, while they provide a somewhat more positive assessment of strong ties built around family and friends than offered by Batjargal (2003). The strength of our work is that it covers a much larger sample of transition experiences.

Moreover, we show that differences in the impact of different networks on trust are most pronounced at national level. Prepayment demands differ significantly across countries and in a way that corresponds closely to other characteristics of successful and less successful transition economies (Table 18.3). Similarly, the kind of reputational networks that firms rely upon to gain information on new customers or suppliers also differ systematically across countries, as does the confidence in contract enforcement through the courts. In other words, different networks generate different positive and negative social externalities.

Table 18.3. **Prepayment and trade credit in transition economies**

	Prepayment	Trade credit
Albania	18.5	29.9
Armenia	6.5	19.6
Azerbaijan	40.2	18.2
Belarus	45.6	30.6
Bosnia and Herzegovina	16.6	12.4
Bulgaria	6.5	21.9
Croatia	6.6	9.6
Czech Republic	4.8	12.8
Estonia	5.9	41.8
Georgia	7.7	22.3
Hungary	7.6	47.6
Kazakhstan	35.9	21.1
Kyrgyz Republik	22.4	12.5
Latvia	9.2	39.7
Lithuania	20.8	54.9
Macedonia	9.3	20.1
Moldova	26.5	22.3
Poland	5.0	33.3
Romania	5.8	30.1
Russia	39.0	19.6
Serbia and Montenegro	23.0	21.1
Slovakia	12.3	17.3
Slovenia	8.1	7.8
Tajikistan	43.3	15.7
Ukraine	45.5	22.2
Uzbekistan	43.5	14.6

Notes: Data are from the 2002 Business Environment and Enterprise Performance Survey (BEEPS). Prepayment is the share of total sales that a firm gets prepayment for. Trade credit is the share of total sales a firm sells to its customers for credit. Both are average across all respondents in the country. The BEEPS surveyed between 150 (in small countries) and 450 (in Poland, Russia, and Ukraine) firms per country, chosen to be representative of the enterprise population. See Fries et al. (2003) for details on the BEEPS, Raiser et al. (2003) for details on the measures presented here.

5. How is Trust in Transition Generated?

One result confirmed by the studies reviewed so far is the positive correlation between confidence in third party enforcement through the courts and trust among firms. If ways could be found to increase confidence in the courts, trust could be built. But what in turn determines confidence in public institutions such as the courts? Our work (Raiser, Rousso, and Steves 2003) suggests that governments should pay attention to the impartiality of the courts. Firms that regarded courts as honest and fair were far more likely to trust other firms than those firms that believed the courts were affordable and efficient. Evidently, it is of little consolation for an enterprise to know that a case brought against it can be quickly adjudicated and the judgement enforced, if the judges were bribed and the defendant wrongly tried. Where economic inequality is reflected in unequal access to justice, the confidence in the courts suffers and their role in promoting the expansion in the division of labour is undermined. Hellman and Kaufman (2004) using the same BEEPS data set find that trust in the courts' impartiality and honesty is related to a firm's perceptions about the extent to which political influence is skewed against them.

Mishler and Rose (2001) examine the more general issue of trust in public institutions with the help of data from the Eurobarometer, using individual household responses on questions about their confidence in public institutions. The authors are able to combine individual data across ten transition economies to examine whether variation in levels of trust is greater across or within countries. While cross-country differences in economic and political performance do seem to be correlated with differences in levels of trust (as also found by Haerpfer et al. 2001 using the same data set), the variation is significantly greater *within* countries. Mishler and Rose show that it is people's perceptions about the performance of the political system (in particular whether it treats people fairly) and about their future economic prospects that have the largest impact on levels of political trust. By contrast, individuals' personal characteristics and social background do not explain much of the variation in trust. This suggests that governments can build trust through reforms that improve economic prospects and by being even-handed in their treatment of citizens. An interesting parallel thus emerges between results at the enterprise and at the household level.

Mishler and Rose also provide further evidence on the apparent disconnection between economic and political performance and levels of generalized (or in their terminology interpersonal) trust in transition economies. In their analysis, interpersonal trust appears 'as an individual personality trait whose origins lie outside the scope of politics' (and economics one might add) (Mishler and Rose 2001: 54).

Mishler and Rose's findings are partially qualified by Uslaner (2001) who examines the determinants of generalized trust in East and West, using the same WVS data discussed earlier. His basic model relates generalized trust to factors such as an individual's outlook on life, her basic values and beliefs, and sense of optimism and control. People who believe the future is bright rather than bleak are guided by altruistic preferences, value tolerance, attach less importance to materialistic values, and are more likely to be trusting. By contrast to the Eurobarometer data used by Mishler and Rose, confidence in public institutions is also positively correlated with generalized trust in the WVS data set. Uslaner shows that the basic determinants of trust are the same in East and West. However, some important differences exist. Thus, the relationship between confidence in public institutions and generalized trust in former socialist countries is much weaker than in market economies and personal financial satisfaction does not explain generalized trust in transition economies.[12]

What these studies suggest is that there is a two-way feedback mechanism between trust in public institutions and economic performance. However, the resulting differences in performance across the transition economies are taking longer to filter through to general moral attitudes. The anomaly that generalized trust in transition seems to be unrelated to measures of social or economic performance is likely to be temporary. Lack of generalized trust is not a factor holding back the transition. Lack of confidence in public institutions, as a result of a weak record on reform, is.

6. Conclusions

This chapter has reviewed the empirical evidence on social capital and economic performance in transition economies. This review suggests that low levels of civic engagement and an underdeveloped civil society have been obstacles in the transition. In particular, there is significant support for the view that social and business networks help firms overcome transaction costs and hence provide both direct economic benefits to network members and more general benefits to society because they help markets function more efficiently. But not all networks have these positive effects. Networks of 'old boys' in public enterprises and in government are more likely to be defensive and prevent competition than networks based around new private firms.

The evidence on the link between civic engagement and improved governance at the level of local and national governments is weaker. The economic benefits of social capital embedded in networks of firms are more evident than the political benefits of group membership that were at the heart of Putnam's work on Italy—although it should be admitted that this review has focused on economic rather than political outcomes. The evidence does suggest, however, that trust in public institutions can be built as a result of an improved economic outlook. People in transition can learn how to trust, and appropriate government policies can help them. Yet, it appears to be much easier to build trust in public institutions than to build the kind of generalized interpersonal trust that is so characteristic of many of the most successful market economies.

I would highlight three sets of policy measures that may help the formation of social capital in transition economies. First, governments can create conditions that facilitate the creation of enterprise associations. Support for business associations through public grants or through the administration of advisory services may be potentially powerful in facilitating economic exchange. Similarly, the creation of civil society organizations should be encouraged not discouraged by government policy.

A second set of policy measures concerns the strengthening of third party enforcement through the legal system. This involves not just increasing the resources provided to the courts but also the adoption of measures that cement the courts' independence from economic influence (see also Glaeser, Scheinkman, and Shleifer 2002 for an analysis in historical perspective). Paying judges competitive salaries is one relatively straightforward step, as are passing laws that are simple and providing judges appropriate training to interpret new laws. Constitutional reforms that guarantee an independent judiciary are more complex but equally relevant measures. More generally, policies that reduce corruption are likely to have a positive impact on people's trust in public institutions, including greater government transparency and accountability, the strengthening of independent monitoring through the media, reforms of public procurement to reduce government discretion, and other measures (see Rose-Ackerman 2005 for a comprehensive review). Improved third party enforcement, in turn, is likely to encourage greater network formation and greater trust among enterprises—and through time perhaps among citizens as well.

Third, there is little in the evidence presented here to suggest that measures that increase competition and entry would destroy social capital by breaking up existing networks. Indeed, it is the old boys networks that are least likely to generate benefits for their members and are most likely to generate negative externalities for everyone else. Disorganization may be inevitable in transition. The evidence reviewed here is that firms and economies recover relatively quickly from this shock. Policies to increase competition and business entry have been amply discussed elsewhere (Djankov et al. 2002).

This abstract discussion avoids the question of whether such reforms are likely to be politically feasible. Rent seeking and influence by vested interests may be too strong for governments to embark on policies that build trust. The experience of the transition economies suggests that external shocks or influences may be needed to push governments to adopt reforms. The prospects of EU Accession were one external factor that was critically important in sustaining reform in Eastern Europe. In the CIS, this factor is not available. Instead, these countries may have to wait for a change in political leadership. In Russia, President Putin has attempted to rebuild trust in the state largely through authoritarian measures, with uncertain outcome in terms of laying the foundations for improved governance. In Georgia and Ukraine, recently elected governments may have the opportunity to chart a different, more democratic course of reform. In Central Asia, the development of civil society and of accountable government might have to wait until the present generation of leaders has gone. Nonetheless, even in these authoritarian states, there is scope for building trust from below, through the interaction of business and households in a competitive environment. The considerable structural changes that inevitably form part of the transition imply that the economic benefits of the emergence of new business networks are likely to be high.

APPENDIX: SUMMARY OF EMPIRICAL STUDIES, ORGANIZED BY OUTCOMES

Outcome Measure and Sample Studied	Independent Variables (only the most important listed)	Basic Result	Authors
Studies Comparing Social Capital in Transition Economies to Other Countries at the Aggregate Level			
Civic engagement (group membership; active group membership)—sample of transition and market economies	(i) Income per capita, (ii) Transition economy dummy, other controls	Transition economies have systematically lower levels of civic engagement	Howard (1999), Haerpfer et al. (2001), Raiser (2003)
Generalized trust—sample of transition and market economies	(i) Income per capita, (ii) Transition economy dummy, other controls	Transition economies do not have systematically lower levels of generalized trust once income per capita is controlled for	Haerpfer et al. (2001), Raiser (2003)
Studies Seeking to Explain Variation in Economic Outcomes within the Group of Transition Economies with Reference to Variation in Social Capital			
Economic growth—Poland and Russia	Generalized Trust (WVS)	Poland grows more rapidly than Russia, but both had the same generalized trust score in 1990	Shleifer (1997)
Economic growth—sample of 20 transition economies	Generalized Trust (WVS), controls	No correlation between growth and generalized trust	Haerpfer et al. (2001), Raiser (2003)
Economic growth—sample of 20 transition economies	(i) Civic engagement (group membership), (ii) Governance (WB governance indicators average), controls	Civic engagement and economic growth are positively correlated, but impact primarily via improved governance	Haerpfer et al. (2001), Raiser (2003)

Studies Seeking to Explain Variation in Enterprise performance in Relation to Reliance on Social and Business Networks			
Size of sales decline—sample of Russian firms	(i) Membership in a business association, ii) level of subjugation to central plan, controls	Membership in business association is associated with smaller sales decline; Greater subjugation to central plan leads to greater sales decline	Recanatini and Ryterman (2000)
Sales growth, profit margin, return on assets—sample of Russian firms	(i) Total number of contacts, (ii) number of friends, (iii) number of acquaintances, (iv) network heterogeneity, (v) number of resource persons in network, (vi) degree of resource mobilization through the network	(i) Size of network 0 (ii) Friends 0 (iii) Acquaintances + (iv) Heterogeneity 0 (v) Resource persons 0 (vi) Resource mobilization +	Batjargal (2001)
Household sales (3 stage model, where sales depend on household production and number of animals, which in turn depends on size of family and number of friends) —sample of Russian rural households	(i) Size of family, (ii) number of friends, (iii) degree of community involvement, controls	(i) Size of family + (indirect) (ii) Number of friends + (indirect) (iii) Community involvement + (direct)	O'Brien (2003)
Studies Examining the Impact of Networks and the Courts on Contract Enforcement and Trust between Enterprises			
Trade credit as an indicator of trust in a customer—sample of private firms in 5 transition economies (Poland, Slovakia, Romania, Russia, Ukraine)	(i) Reliance on different types of networks as sources of information on new customers, (ii) confidence in the courts' ability to enforce contracts, controls, (iii) relational contracting (repeated interaction); controls	(i) Reliance on social and business networks + (declining over time) (ii) Confidence in the courts + (declining over time) (iii) Relational contracting + (increasing over time); Courts, networks and relational contracting are substitutes	Johnson, McMillan, and Woodruff (1999, 2002)

(*cont.*)

Outcome Measure and Sample Studied	Independent Variables (only the most important listed)	Basic Result	Authors
Trade credit as a indicator of trust in a customer—sample of private firms in 5 transition economies	(i) Reliance on different types of networks as sources of information on new customers, (ii) confidence in the courts' ability to enforce contracts, controls, (iii) relational contracting (repeated interaction); controls	Above results confirmed Courts and networks are complements	Woodruff (2002)
Trade credit, investment in fixed assets—sample of Russian firms	(i) Membership in business association, (ii) Trust in courts' ability to enforce claim against other business, (iii) Trust in courts' ability to enforce claim against government authorities, (iv) General trust of manager in other people, controls	(i) Membership in business association + (ii) Trust in courts vs other firms + (iii) Trust in courts vs government + (largest impact) (iv) Generalized trust 0	Frye (2004)
Loyalty (reaction to price increase by supplier)—sample of private firms in 5 transition economies	(i) Reliance on different types of networks as sources of information on new customers, (ii) confidence in the courts' ability to enforce contracts, controls, (iii) relational contracting (repeated interaction); controls	(i) Reliance on networks + (reduces competitiveness of markets), (ii) relational contracting +, (iii) confidence in the courts—(increases competitiveness of markets)	Johnson, McMillan, and Woodruff (1999, 2002)
Information on business disputes—sample of private firms in 5 transition economies	(i) Members of business association, (ii) other channels of communication, (iii) degree of market competitiveness, controls	Business associations help to inform members about business disputes, but are used less the more competitive the market is in which the firm operates	Pyle (2005)

Prepayment—sample of firms in 26 transition economies	(i) Reliance on different types of networks as sources of information on new customers, (ii) confidence in the courts' ability to enforce contracts, controls, (iii) relational contracting (repeated interaction); variables measured both at the firm and at the country level; controls	(i) Reliance on family and friends - (increases trust) (ii) Reliance on government contacts + (reduces trust) (iii) Membership in business association – (iv) Confidence in the courts' fairness and honesty – (v) Confidence in the courts' ability to enforce 0 Country level effects dominate firm-level effects	Raiser, Rousso, and Steves (2003)
Confidence in the courts' fairness/honesty—sample of firms in 26 transition economies	(i) Perceptions of firms' influence relative to other firms; controls	Firms that view themselves as having little political influence relative to other firms have lower confidence in courts	Hellman and Kaufman (2004)
Confidence in public institutions (both individual and country level)—household survey data in 10 transition economies	(i) Trust in fellow citizens (country level) (ii) Aggregate economic and political performance (proxied by TI corruption index) (iii) individual socialization (several dimensions) (iv) perceived political performance (individual level—several dimensions) (v) perceived economic performance (individual level—several dimensions)	(i) No correlation between inter personal trust and trust in public institutions (ii) Weak but positive correlation between trust and aggregate economic and political performance (iii) No impact of individual socialization (iv) strong positive correlation (particularly perceived fairness of political system)	Mishler and Rose (2001)

(*cont.*)

Outcome Measure and Sample Studied	Independent Variables (only the most important listed)	Basic Result	Authors
		(v) strong positive correlation (particularly expected positive economic prospects)	
Generalized trust—household survey data in 10 transition economies	Same variables as above	Impact mostly small, largest impact from aggregate corruption to lower inter-personal trust	Mishler and Rose (2001)
Generalized trust;—World Values Survey data in transition and market economies	(i) Perceptions of future (bright or bleak) (ii) moral values (regard for others, tolerance, post-materialism, equality, respect for authority) (iii) financial satisfaction (iv) confidence in political institutions; controls	(i) Impact positive in East and West (ii) regard of others more important (positive) in West than East; post-materialism more important (positive) in East than West; equality same (positive); respect for authority more important (negative) in West than East (iii) financial satisfaction only important in West (iv) confidence in political institutions and in democracy more important (positive) in West than East	Uslaner (2001)

Notes

1. This chapter builds on a series of papers I wrote while in the Office of the Chief Economist at EBRD. Among my colleagues at the EBRD, I am indebted to Steven Fries, Joel Hellman, Alan Rousso, Peter Sanfey, and Franklin Steves for comments and discussions on the issues addressed in this chapter. Comments from Alejandro Portes on an earlier version of this survey are also gratefully acknowledged. Many others have contributed to my thinking on social capital and trust in transition, including Frank Boenker, Teddy Brett, Giovanni Andrea Cornia, Guido Friebel, John Harriss, Janos Kornai, Claus Offe, Susan Rose-Ackerman, Bo Rothstein, Eric Uslaner, and Hans-Juergen Wagener. However, I am solely responsible for any errors or misrepresentations contained in this chapter.
2. Many economist critics see the multitude of concepts and empirical indicators used for social capital—and the lack of sound theoretical foundations linking some of these concepts to economic outcomes—as one of the major weaknesses of the literature. Rather than trying to suggest a preferred measure of social capital based on a single theoretical framework, this chapter tries to uncover some common patterns in the many different existing studies on the topic.
3. See Greif 1993; Platteau 1994*a*; and Platteau 1994*b* for historical analyses of the role of third party enforcement and universalist morality in the rise of trade between distant strangers in the Mediterranean.
4. Pistor, Raiser, and Gelfer (2000) use the example of the reform of commercial law to argue that the modernization of shareholder and creditor rights legislation failed to have much impact on financial market development in the Soviet Union because of the lack of a history of modern commercial law. Di Tommaso et al. (2007) point to the role of cultural legacies in determining the feasibility of rapid institutional reform in transition. A similar point is made by Mukand and Rodrik (2002), who argue for more local adaptation of institutional arrangements the further away an economy is from the leading core of Western capitalism. In essence this implies different reform strategies for the former CIS other and Eastern European countries.
5. There is no established measure of civic engagement. Most authors use either of the following two measures: (i) the share of respondents that are members in different civic organizations, whereby usually membership in at least one organization is regarded as sufficient or (ii) the share of respondents that claim to be active members in at least one organization.
6. As common in this literature, Haerpfer et al. (2001) and Raiser (2003) use average country responses to the following question as their measure of trust: 'Do you think that most people can be trusted or that you cannot be too careful about other people?' The country measure of generalized trust is the percentage of respondents that said that most people could be trusted.

7. Indeed the proof of causality requires data stretching over a period of time. Miguel et al. (2001) are able to study the causal relationship between civic engagement and economic development across Indonesian provinces and suggest that the causality runs from economic development to levels of civic engagement rather than the other way round. One interesting aspect of their research is the fact that economic development in one region leads to a decline in social capital in an adjacent, less dynamic region, because of the detrimental effects of migration on social capital. We unfortunately lack a similar data set for transition economies.
8. The authors control for potential selection bias by estimating a first stage treatment model on the determinants of membership in business associations.
9. Somewhat contradictory evidence is provided for the Czech Republic by Hayri and McDermott (1998), who argue that business networks built around former large state-owned enterprises adapted efficiently to market conditions, thereby allowing the Czech Republic to recover more rapidly than most countries from the transition recession. However, the ensuing crisis of the Czech model during the late 1990s would seem to undermine this interpretation.
10. One interesting additional finding in Frye's study is the fact that firm managers' general level of trust in other people has no bearing on the firm's level of trade credit or investment. This is yet another indication that moral beliefs change less rapidly than actual behaviour and that it will take time for generalized trust to be built in transition economies.
11. The negative association between the prevalence of business networks and the extent of competition is also consistent with the view that some business networks may have used their influence to actively prevent more competition from emerging. The role of powerful business interests in reducing pressures for reform and thus preventing competition is stressed by Hellman and Schankerman (2000), who argue that in many less advanced transition economies, businesses had effectively captured the state and thus blocked reform progress.
12. Uslaner also shows that while more trusting people are more likely to become members in civil society organizations, the membership in such organizations does not make people more trusting. These results thus contradict Putnam's theory that trust is built through interaction within social groups and networks. However, the group membership variable used by Uslaner may be too crude to refute Putnam's hypothesis. Uslaner also does not take into account the possible externalities that social groups and networks may have on levels of trust even among non-members, arguably a key element of Putnam's notion of how social capital affects political and economic performance. As shown earlier in this chapter, such externalities are indeed important in transition economies as well.

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CHAPTER 19

SOCIAL CAPITAL, INSTITUTIONS, AND COLLECTIVE ACTION BETWEEN FIRMS

ALESSANDRO ARRIGHETTI
GILBERTO SERAVALLI
GUGLIELMO WOLLEB

1. Introduction

Many factors explain cooperation between individuals and in general the adoption of stable forms of collective action. Axelrod (1984) emphasizes that cooperation depends on continuity over time of relationships between subjects. Ullman-Margalit (1978) shows that stability of cooperative solutions depends on the efficacy of incentive mechanisms introduced into relationships between individuals. Boix and Posner (1998) find, on the other hand, that cooperation is strongly influenced by the degree of social and political inequality between potential participants. And lastly, Akerlof and Kranton (1998) emphasize the importance of group identity.

Recently, social capital has been introduced as an element into the debate on the spread of cooperative practices. Social capital facilitates the realization of collective projects because it reduces the risk of free riding and strengthens the trust in interpersonal relationships. Social capital is constructed on the basis of civic involvement in such activities as support for sports and cultural organizations, voluntary associations etc. It is an expression of the norms governing community life, such as participation in elections, respect for public property, the maintenance of traditions and community identity (Kenworthy 1997). Civic involvement increases social capital because it enhances the amount of personal interaction, increases information on the degree of trust that each individual is worthy of, and thus consolidates the overall level of trust (Putnam 1993*a*). At the same time, the networks of civic responsibility supply relational goods such as contacts, information, and reputation, which are of significant value. These goods can be conserved only if individuals remain within a framework of community relationships. The spread of civicness appears to reduce the problems of opportunism, because when initiatives take place within a context of personal relationships and social networks there is greater likelihood that agreements will be kept. This is because of the fear that, if an agreement is broken, the sanction imposed can be the exclusion from the system of individual and collective agreements. Being able to use community goods is thus an important incentive in avoiding defection and putting the relationship of trust at risk. A causal link between social capital and individuals' propensity to cooperation is confirmed by a great deal of empirical evidence (among others, Putnam 1996; Narayan and Pritchett 1997; Molinas 1998).

It is, however, far from certain that similar conclusions can be drawn for interfirm cooperation.[1] The modality of collective action is partially different for individuals and for firms. Among the many differences, we note that firms are not subject to the same sanctions as individuals. Many forms of exclusion, such as social ostracism, cannot effectively be applied to organizations. Moreover, many models of collective action are based on the continuity of relationships and a long time horizon, while a large proportion of firms, newer ones, have a short life expectation. It does not, therefore, seem appropriate to interpret the phenomenon with reference to a framework with an important time scale.

When an individual's social capital is defined and measured in terms of social integration or generic sharing of social values, such as 'participation in the local community, proaction in social context, feelings of trust and safety, neighbourhood connections, connections with family and friends, tolerance of diversity, value of life and work connections' (Onyx and Bullen, quoted in Woolcock and Narayan 2000: 241), it has only limited usefulness in analysing collective action between firms.[2]

A network analysis definition of social capital is equally unsatisfactory for analysing interfirm cooperation. Network analysis focuses on how individuals make investments aimed at increasing the number of their personal links, and on how this represents an important informative resource in economic terms (Taylor 1999; Dijk 1999). Hence, the definition of social capital adopted in this field of research is, 'social capital, ω_i, is a measure of the amount of networks person i has built' (Paldam 2001: 641). But, even if being at the centre of an articulated system of personal relationships can give significant economic advantages, such as arbitrage and exploitation of information (Burt 1997), it is difficult to see how numerical increase of the relationships can, in itself, solve the problems of cooperation. Collective action is in fact normally hampered, rather than helped, by increasing the number of participants.

It is doubtful, therefore, that a specific firm-level social capital, able to facilitate interfirm relationships, does exist. In our view, social capital is a strictly individual endowment linked to the person of the entrepreneur and it is only part of the explanation of interfirm cooperation. This leads us to look for a wider interpretative model which introduces two further explicative variables to explain interfirm cooperation: institutional initiative and the accumulation of past cooperation experience. The basic hypothesis of our model gives an important role to government institutions, mainly local but also central, in promoting and sustaining cooperative initiatives both directly and indirectly. It emphasizes also that the accumulation of interfirm collective action experience and the influence of associational tradition in the economy can play a decisive role in the propensity to start up cooperation in the present.[3]

This approach has been confirmed by various empirical studies. Kenworthy (1997, 1995) shows that trust is a useful, but not essential, condition for the start-up of cooperative behaviour, and that the decisive variable for starting is the presence of institutional incentives. Sakakibara (1997) observes that behind numerous research consortia in Japan there are government organizations supplying benefits and other incentives, both at the start-up and in the subsequent development of the initiatives. In Europe, the importance of institutional action in promoting supranational cooperation projects involving a great many firms is borne out by numerous publications (including Ormala 1993; Mothe and Quelin 2000).

A high level of social capital and an articulated network of civil society still have an important role in this new framework. But there is a difference with the other hypotheses prevailing in the current debate. In our approach, social capital and the spread of associational structures indicate absence of large obstacles to collective action, rather than the presence of incentives able to directly generate cooperation projects in the economy. In this context social capital can be viewed as an individual resource able to 'secure benefits by virtue of membership in a social network or other social structures' (Portes 1998: 6). It is not so much the numerical extension of relationships that counts, but the intensity and quality of social links established between individuals. These links become a vital resource for the creation and development of new firms. More generally the links constitute important information input for assessing economic projects and improving market access. At the same time they also constitute behaviour restraints, reciprocal obligations, and social norms.

According to this line of research, social capital is an individual endowment, given that it is based 'on relationships between actors or between an individual actor and a group' (Portes 1998: 18),[4] and consequently it becomes increasingly important the more the firm is identified with the individual.[5] If the firm is small or very small and the participants few, entrepreneur behaviour can be influenced by benefits and externalities stemming from social relationships, as well as by sanctions such as exclusion and loss of relational goods which regulate community life. It is thus likely that social capital encourages collective action between very small firms. It is also likely that as firm size increases, the variable plays an ever-decreasing role.

A discussion of the costs and benefits of collective action brings our approach more clearly into relief. It is on the basis of these costs and benefits that the various actors decide whether to participate in cooperation: they decide to participate where the expected net benefit of collective action is positive and higher than the benefits from individual action.

2. Benefits and Costs of Collective Action

The benefits of collective action derive from 'strategic complementarities' between actors in the economy. This means that there are many situations where joint action between different economic subjects can assure benefits unavailable through 'individual action'. In these cases potential benefits from collective action can be directly correlated to the number of participants, to the variety of solutions available, and the amount of resources employed.[6]

There are many examples of strategic complementarities in economics. In particular, advantages can be encountered in the provision of categorial public goods, such as the definition of technical standards, the setting up of forms of contract regulation, acquiring information on overseas markets, access to technological services, joint research, and development programmes, and centralized purchase of production input.

The mere fact that positive complementarities exist does not mean that they will actually be exploited.[7] There are no automatic mechanisms in the economy that unfailingly lead individual actors to cooperate in the planning and carrying out of collective projects. This is because the expected benefits for agents from cooperation can be significantly reduced or cancelled out by free-riding costs (the cost of limiting the risks of expropriation of individual benefits from collective action)[8] and by coordination costs (the cost of identifying and sustaining the collective project having the consensus and support of individual subjects).[9]

The literature on cooperation identifies the cost of limiting free riding as the main obstacle to collective action (Olson 1965). Once the collective project is defined, the individual agents might tend to minimize their contribution, and maximize their own net benefit, since the advantages of the availability of a public good are spread among a wide group of users, and the cost of the individual's contribution will tend to be higher than the potential benefits. And since collective action inevitably restricts individual freedom, incentives for defection may be latent or emerge over time. Pursuing a common aim thus involves the setting up of a framework of control to guarantee that constituting rules and regulations are followed (Parri 1997). There are costs involved in checking individual opportunism. If there is no regulation of individuals' behaviour in the joint activity, the individual agent will expect that he may not be able to gain the full benefit of his or her investment and tend to underinvest.

And the spread of this type of behaviour will lead to the failure of collective action.

Coordination costs are a second obstacle to collective action. However, the presence and importance of coordination costs have not been considered 'organically' in the economic literature on collective action. Coordination costs are generated by the very nature of complementarities advantages. The presence of positive externalities, which increase with the number of agents, the resources invested in the project, and the range of initiatives pursued, often leads to a multiplicity of possible equilibria. Before collective action is started up the agents thus have to be able to order and select the optimum equilibrium. In other words, they have to identify from a wide range of alternatives the one that maximizes expected benefits. They have to decide how many and which subjects to involve, what initiatives to adopt, what technology to use, how to organize, how to plan investments, etc., and this can all be extremely costly. It requires significant investment in information, transfer of knowledge, and comparison between different alternatives and negotiation. As well as these costs there is also the cost of adapting individual behaviour to the overall plan, which might involve modification of individual plans and the synchronization of ties (Arrighetti and Seravalli 1999*a*).

3. Factors which Affect the Net Benefits of Collective Action

Free riding and coordination costs play a crucial role in determining the net benefits of collective action. Costs of collective action, however, can be reduced by the accumulation of past cooperation experience and by institutional initiative.

The Historical Tradition of Collective Action

The accumulation of experience of collective action affects the likelihood of its adoption. In the first place it affects the expectations of success. The costs and benefits of collective action are not certain, but are subject to risk assessment.

So the expectations for its success or otherwise can play a decisive role in individual actors' decisions on whether or not it is opportune to participate. Positive expectations will lead a higher number of actors to undertake collective action and not back out of agreements. This in turn will increase the likelihood that collective action is successful, and will confirm or strengthen positive expectations. Expectations of probabilities of success of collective action are, in turn, a positive function of accumulation over time. Woolcock (1998: 168) notes the time link between past and present collective experience: 'the very success of collective action itself influences the various types of social relations coordinating that success in the future'.[10] In areas where a historical memory of collective action is formed, the actors have positive expectations of outcomes, while there is wider participation and fewer cases of opportunism. Ostrom reaches similar conclusions analysing collective action in co-production: the initial time investment to coordinate new projects and gain necessary consensus is high, 'but these serve as demonstration projects for others to see and understand the process. The process speeds up once residents can see how alternative designs work and talk with others who have successfully obtained services' (Ostrom 1996: 1075). The result of joint initiatives does, moreover, influence the spread of collective projects in different fields and sectors: 'the experience of success of coproduction also encourages citizens to develop other horizontal relationships and social capital' (Ostrom 1996: 1083).

The historical experiences of collective action also affect success through accumulation of learning and spread of skills. Collective action is a process of institutional and organizational building which, at every stage, requires skills and know-how, and these tend to be unevenly spread. The selection of the optimum project, the involvement of potentially interested subjects, the identification of specific norms, procedures, and sanction mechanisms are all complex tasks, and have to be given to skilled people and organizations. Their intervention reduces coordination and regulation costs and decreases the probability of collective action failure. These skills and know-how are formed over time and are proved be correlated with the historical tradition in the area of cooperation. Hardin (1993) shows that, particularly in the economy, decisions to cooperate can be influenced by learning and tend to be path dependent. The actors least orientated towards collective initiatives will invest little, and they will experience a lower number of opportunities. Consequently, the probability of success will be low, expectations of failure will come true, and any initial doubts will be confirmed. But the opposite happens for subjects with high propensity to collaboration. Gathering information and interacting with a greater number of participants, they will be able to assess new opportunities and establish profitable collective initiatives. The success of such projects will confirm that cooperation is economically advantageous.[11] Hadenius and Uggla (1996) discuss the function of learning in collective action in civil society, and emphasize that the socialization of norms of democracy occurs through learning by doing. Among the factors influencing efficient management of very large common pool resources, Ostrom (1990) notes the mechanism of 'nested enterprises'. The problem of a high number of participants can be partially resolved when 'larger organizational units ... are built on previously organized, smaller units'. In fact 'once the smaller units are organized, the marginal cost of building on that organizational base is substantially less than the cost of starting with no prior base' (1990: 189). The opposite process can also take place. Pre-existing medium-large organizations, using accumulated learning in collective action management 'generate' much smaller new initiatives in the same fields or in different contiguous contexts. It can thus be hypothesized that intermediate institutional structures, already widely consolidated, contribute to the spread of cooperative initiatives between their own members and to the increase in the propensity to collective action of firms in a given area. This is perhaps the case of local business associations, consortia of small and medium enterprises (SME), and artisan organizations.

The Role of Institutional Actors

The problems of collective action are often solved by an institutional actor external to the interests of subjects involved in a cooperation project. In traditional literature, institutional subjects have basically the role of regulation aimed at overcoming market failure and limiting free riding (Scott 1995). This function can be carried out by central institutions or by local structures, although to a lesser degree. Central institutions can be national authorities or agencies responsible for technical standards, for promoting consumer protection, and for regulating competition; local structures include certification organizations and organizations protecting typical products. From the point of view of regulation, these activities are similar to those of a 'third party' or arbitrator and protector of contractual agreements. More generally, they reduce uncertainty (North 1990, 1993) and support the formation of social capital.

This because they introduce information infrastructures and restraints into the market system, and these serve to facilitate the development of trade and safeguard ownership rights. Within this interpretative framework, regulatory institutions contribute to overcoming problems of collective action by, for example, reducing the costs of direct sanctioning of defectors, even though they are outside the definition and direct management of the cooperative project.

Institutions play a primary role in reducing coordination costs as well. Solving coordination problems is a precondition for the start-up of collective action. In fact, the level of coordination costs necessary to identify the optimum solution influences the final result. Any solution which lowers coordination costs increases the probability of the success of collective action. Institutions, for a series of reasons, are able to act in this direction.[12] This conclusion is justified if we look at the relationship between the way the collective project is drawn up and coordination costs. In general, the solution to the coordination problem can be found either through a decentralized mechanism or through a centralized procedure. In a decentralized mechanism each agent participates directly in planning the cooperative project,[13] while in a centralized procedure a limited subset of agents identifies, on behalf of other participants, the optimum form of cooperation. Centralization is sometimes more efficient than decentralization, because it assigns the planning to a low number of subjects with homogeneous information and responsibilities and so reduces the exchanges of information and simplifies the decision-making process.[14] This has positive effects on the overall coordination costs (Arrighetti and Seravalli 1999*a*). The advantages of centralization, in terms of the reduction of coordination costs, raise the payoff of cooperation and explain why the setting up and sometimes the management of collective action between firms is often carried out by a small nucleus of promoters.

Institutional actors, particularly local ones such as Chambers of Commerce, town halls, business associations, and local banks, have especially high incentives for collective action. By their nature, local institutions carry out centralized coordination functions like the provision of categorial collective goods. They also have greater internal interorganizational coordination resources than individual actors or firms which participate less frequently in collective projects. Furthermore, unlike private subjects, they show a zero or negative opportunity cost for defection or abandonment of collective action. An institutional subject, in fact, receives benefits from participation in the collective project that are essentially realized in terms of legitimization and consensus. These advantages can be enjoyed exclusively through the continuation of collective action. The choice to withdraw from the collective initiative can be profitable for a single firm, but leads inevitably to a loss of influence and role for an institutional entity. Finally, negative payoff of defection and non-sharing in the economic benefits of collective action enable local institutions to ensure fairness in the distribution between parties of the advantages of the collective good that is available. Thus inserting a third institutional party into the cooperative relationship may help to prevent the failure of cooperation: the presence of an institutional actor, moving the 'shadow of the future' (Axelrod 1984) further away, increases the stability of collective action over time.

Observing collective action in dynamic terms strengthens these conclusions. Not only do coordination and regulation costs vary significantly over time, but so too do the benefits of cooperation.[15] The trend towards the weakening of the advantages of collective action shows that,[16] even if coordination and regulation costs remain unvaried, the probability that the collective action will be abandoned increases as a function of time. So the continuation of the collective project requires the constant revision of the range of activities planned. It also requires the initiative to be constantly revised and diversified in order to offset the progressive erosion of complementarities advantages. Here too, institutions can make a substantial contribution. Greater restraints on leaving, and lower costs of coordination, motivate institutions to make investments to extend cooperation to different sectors, to adjust the structure and to maintain the project overall.

Institutions can, moreover, act to reduce coordination costs by participating directly in the cooperation project or promoting the start-up. But they play an equally important role in defining 'external' incentives. They can supply financial subsidies for the creation of cooperation structures. They can allow access to certain resources only on condition that the request is made not by a single organization but by a set or cluster of firms. They can order their agenda to satisfy requests presented collectively, giving lower priority to individual projects. Over time, generalized expectations will be consolidated so that collective action will produce a net positive result, because it is supported and approved by government institutions. It is enough for expectations to be high to sufficiently nourish the conviction that cooperation is possible and advantageous. Moreover, institutions can encourage recourse to collective action by providing legitimization to organizations promoting cooperative initiatives, such as representation groups and cultural associations, or by helping with their running costs.

4. The Determinants of Interfirm Cooperation

The above theoretical considerations of the role of the historical tradition of collective action and of institutional actors lead us to propose a theoretical model where cooperation between firms depends on three factors: social capital, the accumulated experience of collective action between firms, and the level of activity of institutions, apart from structural variables. This model is an alternative to one where collective action between firms depends uniquely on social capital.

Two basic equations were built:

$$Eq.1: \quad PAC_i = \alpha_i + \beta_1 IND_{is} + \beta_2 SIZE_{iv} + \beta_3 CAPSOC_i + \beta_4 ASSOC_i + \varepsilon_i$$

where
PAC = firm propensity for collective action
IND = share of employment in industry s_{th} ($s = 1, \ldots, n$ = industry);
SIZE = share of employment by firm size v_{th}($v = 1, \ldots, n$ = firm size)
CAPSOC = civicness of the system
ASSOC = spread of non-economic associations

In this equation, propensity for collective action between firms (the dependent variable of the model) is a function of two variables linked to social capital and of two structural variables. The former are the degree of civicness of the system (CAPSOC) and the spread of non-economic associations (ASSOC), while the latter are referred to as the degree of industrialization (IND) and the size of the firm (SIZE).[17] This equation embodies the hypothesis that collective action between firms depends essentially on social capital.

The second equation is:

$$Eq.2: \quad PAC_i = \alpha_i + \beta_1 IND_{is} + \beta_2 SIZE_{iv} + \beta_3 CAPSOC_i + \beta_4 ASSOC_i + \beta_5 IST_i + \beta_6 ASSIMP_i + \beta_7 FIN + \varepsilon_i$$

where
IST = level of institutional activity
ASSIMP = accumulation of experience of economic associations between firms
FIN = financial incentives to interfirm collective action

In this equation, propensity for collective action between firms is a function of three further variables: the level of institutional activity (IST),[18] the accumulation of experiences of economic associations between firms (ASSIMP), and the level of financial incentives for economic associations (FIN). This second equation embodies the hypothesis that the propensity for collective action depends, next to social capital, on the role played by institutions and on the associative history of the territory.

The relative validity of these two models has been verified empirically in the Italian case, estimating the importance of various variables in explaining differences in the propensity to collective action between firms in 88 Italian provinces. The empirical tests are based on linear regression equations, while the methodology adopted to build the statistical indicators used in estimates of the models is described in detail in Appendix A (see Table 19.1).[19]

In the first stage of analysis (equation 1), the effect of variables concerning the civicness of the system (CAPSOC) and of the presence of associative structure (ASSOC_9) is measured. The estimate confirms the importance of social capital: the proxies of civicness and the articulation of civil society appear to exert a positive influence on the spread of collective action between firms. In the next stage (equation 2), it is verified whether the model, extended by the introduction of the proxy variable of the level of activity of local institutions (ISTIT), the proxy variable of past association experience between firms (ASSIMP), and the proxy variable of financial incentives to interfirm collective action (FINCON), modifies the interpretation of the phenomenon. The results show an increase in the goodness of fit and some important changes in the values of the coefficients of independent variables. In particular, the proxy of individual associations of recent years is no longer significant (ASSOC_9) and the civicness of the system (CAPSOC) becomes less significant. The variables measuring the role of institutions and past experience of interfirm associations are, on the other hand, highly significant, with the exception of financial incentives (FINCON). The results of the estimates appear to show that the level of institutional activity and the accumulation of experience in economic associationism are particularly influential in explaining the differences in propensity for collective action between firms in the Italian provinces.[20]

In the second part of the empirical analysis the two models are verified with reference to different classes of firm size.[21] The aim is to establish whether the determinants for propensity for collective action vary with this parameter. The evidence appears to support an interpretative framework that is not unique.[22] For smaller firm sizes, the results are consistent with the analysis of aggregate propensity for interfirm collective action. The spread of consortia-type

Table 19.1. The determinants of the propensity to collective actions between firms

Variables	Equation 1	Equation 2
Constant	0.623	0.922**
IND_TRA	0.122	7.956E-02
IND_SCA	−5.446E-02	−2.285E-02
IND_SUPP	0.108**	−1.329E-03
IND_SCI	−7.991E-02	−1.744E-02
IND_ENER	−5.788E-02	−9.377E-02
IND_BUIL	0.176**	0.109
IND_DEAL	−4.652E-02	−6.577E-02
IND_SERV	0.283	0.136
SIZE_3	0.155	0.151
CAPSOC	0.180***	9.977E-02*
ASSOC_9	0.101***	5.274E-02
FINCON	–	−2.004E-02
ASSIMP	–	0.155***
ISTIT	–	7.102E-02**
R^2a	0.654	0.749
F	15.955***	19.590***

Notes:
N = 88; *** = significance level 1%; ** = significance level 5%; * = significance level 10%.
KEY:
IND _TRA = share of province employment in traditional manufacturing industries;
IND_SCA = share of province employment in manufacturing industries with increasing returns to scale;
IND_SUPP = share of province employment in specialized suppliers manufacturing industries;
IND_SCI = share of province employment in science-based manufacturing industries;
IND_ENER = share of province employment in utilities sectors;
IND _BUIL = share of province employment in the building sector;
IND_DEAL = share of province employment in the retail trade;
IND_SERV = share of province employment in banking, finance, and insurance;
SIZE_3 = share of province employment in firms with more than 20 employees;
CAPSOC = civicness of the system;
ASSOC_9 = spread of cultural and social associations; (proxy for the spread of non-economic associations);
ISTIT = level of activity of local institutions; (proxy for the level of institutional activity);
ASSIMP = accumulation of experiences of economic associations between firms;
FINCON = regional financial incentives forconsortia; (proxy for financial incentives to inter-firm collective action).

practices does not appear to be influenced by technological or sector factors, but rather by variables related to social capital, institutions, and the accumulated experience of collective action in the economy.

But the relative effect of single variables changes when the determinants of cooperative initiative among larger firms are examined. Social capital and the role of institution indicators have less importance, and are replaced by technological sector variables.

The conclusion is that collective action between small firms is strongly influenced by local institution initiatives, as well as by economic associational tradition and by social capital.[23] Technological factors are not particularly important in this context, considering the limited learning acquired and the scarcity of management resources and project skills that firms have for developing cooperative initiatives. Consortia initiatives between small firms can thus be more easily realized if an external subject has a management infrastructure that is able to limit coordination and regulation costs, and preserve the net benefits of collective action.

These restraints are much less important where larger firms are concerned. As they have greater bureaucratic and administrative resources, larger firms can autonomously prepare infrastructures for the coordination and regulation of joint action. The incentive for cooperation is thus principally supplied by the importance of technological and organizational factors and in the contribution an individual firm can make to the increase of collective benefit. If the advantages of cooperation derive from the presence of differentiated knowledge between firms and the sharing of specialized resources, then for larger production units it is the sector variables that are crucial, while the role of institutions is of low importance. This is the picture given by our estimates.

5. Social Capital and Institutions

The Relationship between Social Capital and Institutions

An objection to the interpretation given to our previous empirical results, which attributes an autonomous role to the institutions in determining collective action between firms, is that in reality the level of institutional activity is an indirect indicator of social capital. Some authors claim, in fact, that institutional performance depends significantly on the level of generalized trust and the endowment of social capital available to a given community (Putnam 1993*b*; Fukuyama 1995; La Porta et al. 1997). Institutions, particularly local ones, are often more effective and active the higher their reserve is of social capital. The more detailed, stable, and numerous are the organizational structures expressing civil society, the more explicit will be the requests made by society to the authorities. The operational agenda of local and national governments will also be more focused. The ordering of the aims and projects, and the constant scrutiny of public authority by civic associations, have the effect of further improving institutional efficiency in that there is no incentive for the public manager to pursue aims different from collective ones. In this framework it is social capital which raises the efficiency and level of institutional output, rather than vice versa. On this premiss, the level of institutional activity could be seen as the direct result of the 'historical' endowment of the community social capital. In other words, institutional performance could be interpreted as the effect of external factors on institutional experience.

This line of interpretation can be compared with another in which institutional performance is a function of both social capital and the historical level of institutional activity. This second line of interpretation is justified by various considerations.

In the first place, assigning to civil society the role of primary and almost exclusive cause of different institutional performances leads to errors in specification and incompleteness in the interpretation model. Even if we assume that citizens are able to achieve spontaneously and constantly high levels of political mobilization, their

> capacity to make effective demands and to sanction government action may remain limited. Agenda setting, non decision-making, and media manipulation mean that certain issues do not even reach the public's attention. Electoral cycles mean that certain policies go unpunished while others receive immediate attention. Public interest may correct some of that bias but hardly all. Even with a free press, information about policy and policy consequences is costly and confusing. While a vigilant citizenry is certainly a requirement of democracy, it is not always so easy to be vigilant.
>
> (Levi 1996: 49)

In the second place, government structures, particularly local ones, are complex mechanisms. In part they depend on social, cultural, and economic opportunities and restraints. But they also prove to be partially autonomous in the political strategies that can be realized. The debate on 'developmental government' has brought to light numerous cases where innovation in institutional design, upsetting pre-existing power equilibria, and changes in the orientation of government elite, can lead to the adoption of inclusive strategies, even in contexts with recent and limited democratic traditions. Tarrow's remarks appear to go in this direction:

> ... the operative cause of the performance of the regional institutions in both North and South [of Italy] is neither cultural nor associational but political. Expressed in the form of a hypothesis, the historical evidence can be read as support for the idea that the nineteenth-century popular politics of north-central Italy are themselves the source of both the civic community and the positive political performance of its regional governments. (1996: 394)

In the third place, unlike the neo-Tocquevillean hypothesis summarized above, the unidirectional causal relationship between civil society and the quality of government institutions can be inverted: efficient and democratic institutions facilitate and are sometimes at the origin of a vital and detailed associational fabric and widespread and widely used cooperative practices. As Skocpol (1996) claims, an organized civil society does not develop independently of an active and inclusive democratic government. For Evans (1996), the double direction of the institutional–civil society link has cumulative effects: 'creative action by government organizations can foster social capital; linking mobilized citizens to public agencies can enhance the efficiency of government. The combination of strong public institutions and organized communities is a powerful tool for development.' The non-exclusive but strongly interdependent nature of the relationship between social capital and institutions is emphasized by Warner:

> ... in place with horizontal social capital and robust, democratic governance structures, governmental interventions may promote horizontal community social capital development, which will in turn impact program and organizational design and further reinforce social capital and democratic political structures. (1999: 381)

This process can be supported or weakened by political, economic and legitimization resources which can even be external to the community where they are developed. Studying the effects of regional policies inaugurated in Brazil in the 1980s, Tendler concludes that

> ... the state government ... was contributing in a major way to the creation of civil society by encouraging and assisting in the organizing of civic associations, including producers groups, and working through them. These groups then turned around and 'independently' demanded better performance from government ... Both the improvement of municipal government and the strengthening of civil society, in sum, were in many ways the results of a new activism by central government, rather than of its retreat. (1997: 16)[24]

Finally, the coordinated action of institutions in itself directly influences the capacity of the system to realize forms of cooperation and associations, leading to mechanisms of regulation, communication, and reciprocal knowledge which facilitate collective action and reduce the problems of opportunism. This hypothesis is developed in studies in which it is shown that the capacity to stimulate local economic development is higher whenever there is a greater supply of selective public goods which are both tangible and intangible.[25] These provide both direct support to economic activity and indirect support to social cohesion and collective action between individuals (Arrighetti and Seravalli 1999*a*, 1999*b*; Arrighetti, Seravalli, and Wolleb 2001).[26]

The validity of the hypothesis of the autonomous role of institutions in determining their own level of performance and, more generally, the direction of causal links between social capital variables and institutional variables are empirically investigated in the following section.

The Determinants of Institutional Performance

The relative role of social capital variables and of institutional variables in determining *institutional performance* is illustrated in the model embodied in equation 3. The dependent variable of the model is institutional performance. Among the independent variables, three refer to social capital: the civicness of the system, the level of criminality (used as an indicator of negative civicness), and the spread of non-economic associations; one refers to the autonomous role of institutions, which is the level of institutional activity; and one is a control variable for the total population of the province.

$$Eq3: \quad RENDIST_{iy} = \alpha_i + \beta_1 CAPSOC_i + \beta_2 CRIME_i + \beta_3 ASSOC_i + \beta_4 IST_i + \beta_5 POPTOT_i + \varepsilon_I$$

KEY:
RENDIST = institutional performance
CAPSOC = civicness of the system
CRIME = index of criminality
ASSOC = spread of non-economic associations
IST = level of institutional activity
POPTOT = total province population;
$i = 1, \ldots, 88$ (provinces);
$y = 1, \ldots, n$ (proxies of institutional performance);

This model was the object of a second empirical verification applied again in the case of eighty-eight Italian provinces and based on regression equations.

A first hypothesis is that the historical level of activity of local institutions is not significant and that social capital accounts entirely for the performance of Italian institutions at the province level. An alternative hypothesis, coherent with the present work, is that the level of institutional activity plays an important role in determining current institutional performance, along with social capital.

The same database is used as in the previous estimates, while the methodology followed for the statistical indicators is described in detail in Appendix B.

The results of the regression support the validity of the second hypothesis. Both social capital and the level of activity of local institutions play a significant role in determining the institutional performance in the eighty-eight provinces. The indicator of civicness is particularly important amongst social capital variables, while non-economic associations and the criminality indicator are not statistically significant (see Table 19.2).

The performance of local government structures, at least in Italy, is therefore also a function of the inclusive orientation and the accumulation of past

Table 19.2. The determinants of institutional performance

Variables	Equation 3
Constant	−0.229
ISTIT	0.392***
CAPSOC	0.515***
ASSOC_9	2.784E-02
CRIME	0.248
POPTOT	2.571E-07
R^2a	0.503
F	14.179***

Notes:
N = 88; *** = significance level 1%; ** = significance level 5%; * = significance level 10%.

KEY:
ISTIT = level of activity of local institutions (proxy for the level of institutional activity);
CAPSOC = civicness of the system;
ASSOC_9 = spread of cultural and social associations; (proxy for the spread of non-economic associations);
CRIME = index of criminality;
POPTOT = total province population.

Table 19.3. The causal links between social capital and institutions

Stages	Exogenous regressors	Coefficients	R^2A	F
(*a*)				
Stage 1: estimate of ASTOT and ISTIT	DIM. 5, SP1, SP2, SP3, SP4, SP5, SP6, SP7, SP8, SP9, SP10, SP11, SP12, SP13, SP14, SP15, SP16, SP17	–	–	–
Stage 2: estimate of CAPSOC			0.367	26.19***
	ASTOT	0.00757 (0.814)		
	ISTIT	0.69008*** (5.281)		
(*b*)				
Stage 1: estimate of ASTOT and CAPSOC	DIM. 5, SP1, SP2, SP3, SP4, SP5, SP6, SP7, SP8, SP9, SP10, SP11, SP12, SP13, SP14, SP15, SP16, SP17	–	–	–
Stage 2: estimate of ISTIT			0.307	20.25***
	ASTOT	0.02185** (2.170)		
	CAPSOC	0.55996** (4.078)		
(*c*)				
Stage 1: estimate of ISTIT and CAPSOC	DIM. 5, SP1, SP2, SP3, SP4, SP5, SP6, SP7, SP8, SP9, SP10, SP11, SP12, SP13, SP14, SP15, SP16, SP17	–	–	–
Stage 2: estimate of ASTOT			0.07	4.298**
	ISTIT	6.92604* (1.630)		
	CAPSOC	1.94713 (0.472)		

Notes:
N = 88; *** = significance level 1%; ** = significance level 5%; * = significance level 10%.
KEY:
ASTOT = ratio of number of associations in total population (proxy for the spread of non-economic associations)
DIM5, SP 1–17 = size and sectoral fixed effects;
ISTIT = level of activity of local institutions; (proxy for institutional activity);
CAPSOC = civicness of the system.

learning by institutions. The local capacity for institutional initiative cannot thus be expressed only with reference to the endowment of social capital in the community. Our evidence shows that institutions have some autonomy in selecting their evolutionary path and defining their own operations.

A final investigation aimed to check the direction of causal links of variables of social capital and of institutional activity in the model of institutional performance described in equation 3. In order to make closer assessments of the degree of endogeneity of social capital and of institutional structure, three different two-stage regression models were constructed.

In the first model (Table 19.3*a*), at the 'second stage', associational levels (ASTOT)[27] and intermediate institutions (ISTIT) are considered endogenous variables and the civicness variable (CAPSOC) is regressed. In the second model (Table 19.3*b*) associational levels and civicness are considered endogenous and the level of activity of intermediate institutions is regressed as a dependent variable. In the third model (Table 19.3*c*), civicness and the level of activity of intermediate institutions are considered endogenous and associational level is regressed as a dependent variable. For all three models, in the first stage, the variables considered endogenous are estimated through instruments, which in this case are represented by indices of industrial sector and firm size specialization.

The results show that capacity of explanation is higher in the equation where the institutional factor (ISTIT) is an endogenous variable of the model (Table 19.3*a*) than in the others (Table 19.3*b* and 19.3*c*). Here again, institutions, social capital and associational levels seem to be linked by a relationship not of exclusion but of reciprocal strengthening, in which institutional activism has a particularly important role.

6. Conclusions

This chapter, and the research on which it is based, rests on the hypothesis that the logic and modality of collective action between firms are different from the logic and modality of collective action between individuals. So an explanation of cooperation between companies requires using partly different variables from those which explain cooperation between individuals. In particular, the variable of social capital, which has been given a central role in recent literature on collective action, is only partially useful in explaining the spread of associationism between firms.

In order to look at the problem of what determines collective action, we built a model which uses, alongside social capital, the historical tradition of collective action and the activism of institutional actors as explicative variables of associationism between firms. These two variables are important because they influence the net benefits of collective action, increasing the expected advantages and/or reducing costs.

The historical tradition of collective action acts primarily on the expectations of success. In areas where cooperation is deeply rooted, firms are aware of the benefits of collective action and show a higher propensity to participation. Historical tradition acts secondly through the accumulation of knowledge and skills concerning the construction of collective action.

This institutional and organization know-how guides the choices to be made in the various phases of collective action, thus reducing coordination costs. There is thus a component of path dependency in cooperation which acts on expected benefits and costs of collective action.

In collective action, institutions carry out the dual function of regulation and coordination. The regulation function, central in the literature on collective action, aims at overcoming market failures and checking free riding. It consists of information-gathering structures and behaviour restraints to help trade between economic agents and safeguard ownership rights.

The coordination function, obvious but paradoxically less frequently discussed in the literature, is that carried out by institutions in the definition and direct management of the collective project. It consists of gathering and communicating information useful for the start-up of collective action, identifying participants, choosing the operational project among possible alternatives, and laying down and maintaining the organizational structure. Institutions are often in a very favourable position to carry out these tasks, which drastically reduce coordination costs for private agents and lower the threshold of profitability of cooperative projects. The historical tradition of cooperative projects and the capacity of central and local institutions to act effectively in the field of collective action differ radically from area to area. Our working hypothesis is thus that these two variables are well able to explain differences in the spread of interfirm cooperation over different areas.

One possible objection to introducing the role of institutions into the model is that institutional performance, especially locally, could be almost wholly determined by the historical endowment of social capital. Inserting it as an autonomous variable could thus be incorrect. But in this paper we submit that the relationship between social capital and institutional performance is bi-univocal. Institutions enjoy relative autonomy in drawing up intervention strategies and are able to influence social contexts where they operate. The growth of civil society, in this approach, is itself strongly influenced by the presence of an active and efficient government and the type of choices it makes.

Our theoretical hypotheses were tested to assess the relative importance of different factors in determining the concentration of interfirm cooperation in different areas. The area of study was the different provinces of Italy. Two models were verified empirically through regression equations. In the first model, the propensity for collective action of firms in an area, the dependent variable, was compared to variables relating to the employment share of manufacturing and services, the different firm sizes, civicness, and non-economic associationism. The empirical results of this first model confirm the importance of civicness and non-economic associationism, two proxies of social capital, in explaining the different area spread of firm associationism. The second model included further explicative variables, such as institutional activism and accumulation of experience in firm associationism. These two variables improved the overall explanatory capacity of the model but modified the relative importance of the variables considered. In particular, the significance of non-economic associationism resulted to be irrelevant, while that of civicness was reduced. The importance of institutional activism and of accumulated associative experience instead became greater. These results appear to support the theoretical hypotheses put forward in the first part of our chapter, where we identified two crucial variables for collective action in both institutions and the historical tradition of interfirm cooperation.

The two models were subsequently tested with respect to different class sizes of firm. The most important result here was that the variables of social capital, institutional activism, and accumulated experience were extremely significant for smaller firms, but decreased in proportion to the increase in the size of the firms. This is perhaps a predictable result, for it demonstrates that medium and large firms are less affected by the context of the area in which they operate.

Further, the relationship between social capital and institutional performance was subject to empirical investigation. The aim was particularly to try to find out whether, and how far, present institutional performance can be explained by civicness, non-economic associationism, and past institutional activism. This test led us to reject the hypothesis that civicness and non-economic associationism wholly explain institutional performance. The hypothesis that the level of institutional activity strongly influences present institutional performance was confirmed. These findings support the idea that institutions have an autonomous role in promoting interfirm collective action

Finally, the direction of the causal links between social capital and level of institutional activity was investigated. Our main finding was that the causal link between these two variables is bi-univocal: social capital and institutional activity tend to reinforce each other in the effect they have on institutional performance.

APPENDIX A: STATISTICAL INDICATORS OF INTERFIRM COOPERATION

Most statistical indicators used in this work were taken from the ISL Data Bank, set up by the Department of Economics of the University of Parma, to study the relationship between intermediate institutions and local development. The indicators used in section 4 were calculated as follows:

1. The Dependent Variable: Firm Propensity to Collective Action

The propensity to participate in formal initiatives of collective action between firms (PAC) was approximated by the LOGCON variable, obtained from information in the Seventh General Census of Industry and Services. It consists of the logarithm of the percentage of the number of firms in the services and manufacturing sector operating in the *n*th province, who claim to be in an association or consortium with other firms or institutions, and the total number of firms active in the *n*th province in 1991 (IMPCON).

2. The Variables of the Social Capital Hypothesis: Civicness and Spread of Associations

The civicness variable (CAPSOC) was constructed on the basis of indicators used by Putnam (1993*b*) to study the role of social capital in Italy in explaining differences in regional institutional performance. The CAPSOC indicator was constructed using factor analysis of the following variables: LETT 65 which shows the percentage of total population in 1965 who, in their spare time, read newspapers, magazines, books, or other literature not linked to their profession or trade—a measurement of the cultural level of the population; REFER74 which is the percentage of the population having the right to vote who voted in the 1974 referendum—a measurement of social commitment and participation; PREF_AV which shows the propensity to use political clientelism in exchanging votes. It is calculated as the simple arithmetical average of percentages of preference votes to total votes in each General Election of 1953, 1958, and 1963.

Another social capital variable included in the model is the spread of non-economic associations. An estimate of the spread of associations in the 1990s is made up of the factor ASSOC_9 constructed through principal component method of the following variables: ASTOT_9, which gives the percentage of private associations (social, cultural, recreational, and sports) in the population of the province and ASVOL_9, which shows the percentage incidence of voluntary associations in the same population.

3. The Variables of the Institutional Hypothesis: Level of Institutional Activity and Historical Accumulation of Interfirm Collective Action

Levels of institutional activity were approximated to various aspects of the initiative and of the roots of the intermediate institutions in local economies. The basic variables refer to different types of intermediate institutions which have significant impact on their area of activity. These institutions include local banks, Chambers of Commerce, technical and professional schools, local and province administrations.

The synthetic indicator used is ISTIT. This variable is obtained from the analysis of the principal components of five variables. Firstly, BP: this is the degree of importance of local banks in province economies in 1960, calculated as the percentage between the amount of local bank lending and the amount of lending by all credit institutes, multiplied by the degree of province specialization in manufacturing industry. Secondly, SPESTRUT: this is the level of effort made by local organizations to encourage local economic development through supplying public goods such as infrastructure and education, calculated as the ratio of Administration spending on education and public works and total Administration spending in the early 1960s. Thirdly, RTEC51: this is the supply of technical instruction exceeding the level of industrialization in the area; it is calculated on the basis of non-standardized residuals of an equation regressing the rate of technical and professional education in 1950 on the percentage of industrial employment to total employment. Fourthly, FACAM: this shows the age and capacity for promotional initiative of Chambers of Commerce and is obtained by factor analysis of CAM 1 (ratio between Chamber meetings and total number of firms in 1951 census) and CAM 2 (a dummy with value 0 for provinces with no Chamber of Commerce before 1862 and the value of 1 for other provinces). Lastly LOGCAM: this shows current levels of activity of Chambers of Commerce, calculated as the logarithm of the percentage of the number of Chamber participations in firms and the total number of firms registered in 1997.

The variables regarding economic associational experience are reduced in the ASSIMP factor. The indicator derives from analysis of the principal components of the following five variables: TART70, which is the membership rate of artisan associations in 1970, calculated as the ratio between the number of artisan firms belonging to artisan associations and the number of artisan firms on the official register; VOTALB70, which shows the degree of participation in elections for province commissions and is the ratio of the total numbers of valid votes cast by artisans in the commission elections to the total of officially registered artisans in 1970; COOP51AD,which is the proportion of employees of cooperative firms to the total number of employees, as shown in the ISTAT census of 1951; AGCO70Q, which is the percentage share of agricultural firms supplying products to agricultural cooperatives, or similar, to the total number of agricultural firms existing in 1970 (ISTAT 1974); lastly AFID74, which is a dichotomous variable showing 1 for provinces having a loan guarantee consortium in or before 1974, and 0 for those without.

A further variable was added to measure the amount of financial incentives to consortia made by public institutions (FINCON). In calculating this indicator we took into account funds made available by regional governments 1992–4, divided by the number of firms registered in each region. Figures were not available for separate provinces so all provinces from the same region are given the same value.

APPENDIX B: STATISTICAL INDICATORS OF INSTITUTIONAL PERFORMANCE

The statistical indicators used in section 5 were taken, as they were for those in section 4, from the ISL Databank. The indicators used in the empirical estimates were calculated as follows:

1. Dependent Variable: Institutional Performance

The proxy for institutional performance (RENDIST) was constructed by means of a principal component analysis of the following variables:

a. Speed and Quality of Local Government Spending

The first indicator of institutional performance concerns the geographical unit of the 'Comune', which is the lowest tier of local government. The speed of local government spending (VEL-PAG2) is considered to be a proxy of institutional performance as it indicates the level of efficiency in financial management. It represents both the capacity of administration to spend income according to schedule, and its capacity to devote a relatively high share of income not to current expenditure. The indicator was obtained from figures from the Ancitel database on the economic and financial indicators of local government. The indicator VEL-PAG1 was built first. It is the unweighted speed of payment, calculated as the ratio between current expenditure already made and estimated current xpenditure. VEL-PAG2 was built as the ratio between VEL-PAG1 and the ratio of wage bill and debt service on total expenditures.

b. Chamber of Commerce Activity Levels

The second indicator measures the relative propensity of the Chamber of Commerce in Italy to purchase shares in public and private firms (LNPCC). This can be considered to be an indicator of institutional performance, as it shows the efficiency in and commitment to supporting and integrating with the local economic system. The performance indicator was constructed considering participation in private and public economic initiatives made by each Chamber of Commerce up to 1997. The PRTCC variable is the ratio of the number of participations to the number of firms registered with the Chambers of Commerce. In the regression, the indicator was used as a logarithm denominated LNPCC.

c. The Setting up of the 'One Stop Information Desks' (LNSU_POP)

The third indicator of institutional performance was constructed on the basis of the speed with which local administrations put into practice a national law setting up 'One Stop Information Desks' ('Sportello Unico delle Imprese'). The law was aimed at simplifying authorization procedures for setting up or modifying production plants. The variable is the logarithm of the ratio between population of the local administrative areas which had set up the Sportello Unico within eighteen months of the date the law was published and the total population of the whole province containing these local administrations.

2. Social Capital Variables

We used as proxies for social capital CAPSOC, as in section 4, and ASTOT, which is the ratio of the number of associations to the total population. Another indicator was also introduced, CRIME, which shows the spread of unsocial capital. The aim is to enrich the interpretation by introducing the hypothesis that widespread illegal activities and social criminality affect the efficiency of government structures by subtracting resources, or at any rate hindering the action of local and other institutions. CRIME is derived from the analysis of the main components of the variables FALL61, PROTT61, and CRIME_FE. FALL61 is the ratio of publicly declared bankruptcies in 1961 to population; PROTT61 is the ratio of the number of unfunded payments in 1961 to population; and CRIME_FE is the average number of crimes, excluding theft, reported in 1961 per 1000 inhabitants.

3. Institutional Activity Variable

The proxy for level of institutional activity is ISTIT, as in section 4.

4. Control Variables

The total population (POPTOT) has been used as control variable.

Notes

1. Social capital as catalyst of network and collective action between economic organizations is elaborated in Uzzi (1997), Nahapiet and Ghoshal (1998), Tsai and Ghoshal (1998), Adler (2001), Anderson and Jack (2002), Puhakka (2002), Sorama, Katajamaki, and Varamaki (2004).
2. Levi raises similar doubts:

   > ... If people act trustfully, they tend to cooperate and invite co-operation in return.... However, the soccer clubs and bowling leagues that are meant to produce such dense networks hardly seem up to the task. Certainly, they are not particularly useful agents of the kinds of sanctions and information that are necessary to promote large-scale economic exchange. (1996: 47)

3. The intertemporal link between past collective experience and present collective action is noted by Woolcock: 'the very success of collective action itself influences the various types of social relations coordinating that success in the future' (1998: 168).
4. On the meaning and content of the concept of social capital with respect not only to social or political transactions but also to economic processes and interfirm cooperation see, among others, Woolcock (1998), Dasgupta (2000), Glaeser, Laibson, and Sacerdote (2000), Ostrom (2000), Lin (2002), Anderson and Jack (2002), Westlund and Bolton (2003), Fromhold-Eisebith (2004).
5. Accordingly, 'social capital is mainly associated with strong interfirm ties, certain interpersonal dynamics (primate of trust and reciprocity), and a common context, language and codes of behaviour of individual integrated in the structure (e.g. shared terms and experiences)' (Fromhold-Eisebith 2004: 752).
6. See Arrighetti and Seravalli (1999*a*) for a more detailed analysis.
7. As is well known, in economic literature there are many examples of coordination failures concerning investment decisions, technological innovation policies, market research costs, etc. See Cooper (1999) for a survey and theoretical discussion of these failures.
8. Ostrom (1990) emphasizes that 'making the switch... from independent to coordinated or collective action is a nontrivial problem. The costs involved in

transforming a situation from one in which individuals act independently to one in which they coordinate activities can be quite high . . . '

9. In other words agents should look, tacitly or in negotiated ways, for forms of reciprocal coordination regarding the action to undertake. The decision with lowest benefits or greatest disadvantages is to activate conflicting initiatives. See Lewis (1969), Schelling (1980), Hardin (1982) on basic aspects of coordination problems.
10. Hirschman (1984) contains similar remarks although from a different point of view. He notes that failure tends to cause individuals to move away from collective action, with few exceptions, and also makes it less likely for them to be involved in subsequent collective projects.
11. Van Lange et al. (1992) reach similar conclusions.
12. See Arrighetti and Seravalli (1999*a*, 1999*b*) for a discussion of the relationship between coordination costs and institutional action.
13. The main elements of the theory of self-organized collective action are given in Ostrom (1990).
14. The centralized mechanism gives better results especially where there are marked differences in preferences and information of participants, and when an efficient equilibrium can be pursued using a plurality of technological solutions, which are equivalent, at least at the beginning.
15. See Arrighetti and Guenzi (2000).
16. Sachwald (1998) contains some hypotheses on the progressive reduction of advantages of cooperation.
17. For the disaggregation of industrial sectors we followed the taxonomy proposed by Pavitt (1984).
18. Note that the level of institutional activity is inferred by a set of historical data going back to the 1950s and 1960s as illustrated in Appendix A.
19. See Arrighetti and Raimondi (2002) for further details on methodology.
20. It was thought opportune to test the robustness of the results with the method suggested by Levine and Renelt (1992), which is to determine, through intervening variables, the minimum limits in estimating coefficients for which they maintain the same sign and remain statistically significant. The test shows that the estimates are solid.
21. In other words, the dependent variable is constituted by the propensity to participate in consortia and association initiatives of the firms belonging to the specific size class examined.
22. Tables relative to these estimates have not been included in this paper. They can be found in Arrighetti and Raimondi (2002).
23. Similar outcomes are discussed in Fromhold-Eisebith (2004) where it is shown empirically that interactions between local institutions and social capital may lead to positive synergy and reciprocal complementary effects.
24. This conclusion appears to be shared by Warner (1999), who says that central government does not always reduce the reserve of social capital. Sometimes central governments, through subsidies or the definition of quality standards,

can offer opportunities for local governments to create or increase the level of social capital present in the community.

25. In this framework institutions and local government do not only supply rules or enforcement. They also supply tangible and intangible public goods which allow problems of coordination and incompleteness of local markets to be overcome, and which enter as inputs into community social interaction. A similar approach is found in Evans (1996) and Tendler (1997).
26. See Arrighetti and Seravalli (1997, 1999*a*) and Dall'Aglio (1999) for empirical verification of this hypothesis.
27. Proxies for associational levels different from ASTOT do not significantly change the economic meaning of the findings.

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PART IV

BETWEEN COMMUNITY AND SOCIETY

Introduction: Social Capital between Community and Society

Dario Castiglione

As the structure of this volume suggests, the two main fields of social capital theory application have been democratic politics and economic development. In both cases, it is argued that there is a positive correlation between 'social connectedness' (the glue that binds people together) and positive outcomes in those areas. More specifically, it is maintained that social capital has a generally positive effect on institutional performance in democracies (Putnam 1993), and that social capital is the 'missing link' of theories of economic development, which have traditionally focused on stocks of natural, physical, financial, and human 'resources' as the preconditions for development, but have overlooked the importance of how economic agents 'interact and organize themselves' (Grootaert 1998: 1).

There is a third area of social capital research besides politics and economics, and this is obviously the social domain. Issues regarding education, health, social welfare, crime, liveability, and well-being have all been addressed through the lenses of social capital.[1] Indeed, the very idea of social capital seems first to have emerged in connection with education (Hanifan 1920; Coleman 1988), and as part of more general reflections in social theory (Bourdieu 1986; Coleman 1987). Moreover, or so the argument goes, if a higher degree of social connectedness makes democracy work and economies develop, it must certainly have a role for the more 'social' aspects of our life. But, as with the nature and effects of social capital in politics and economics, the relationship between social connectedness and the 'social' is both complex and contested.

The final part of the Handbook addresses this relationship by investigating the role that social capital plays in promoting 'social cohesion', meant here as a general property of societies and as the object of both analytic, normative, and practical discourses. However, the chapters comprising Part IV address the issue transversally, by raising a series of problems that connect with preoccupations already touched upon in other parts of this volume. The first problem is that of the causal mechanisms that explain the production of social capital, at least when this is seen as embodied in the propensity of individuals to associate in groups (Chapter 20). The second problem concerns a more general normative assessment of the place that social capital has as a mechanism for social cohesion (Chapters 21 and 22). The third problem speaks to the kind of orientation that a focus on social capital gives to policy making in modern societies (Chapters 23 and 24).

The aim of this introduction is to put these three problems in context, showing how they relate to the central focus of Part IV, and the kind of questions they raise for social capital research and theory. But, in order to provide a full context for such a discussion, two preliminary observations may be warranted. The first concerns the often unacknowledged presence in many discussions of social capital of the model of 'community' relations—in the sense made dominant by classical sociology—as the paradigm of social connectedness. There is little new in this. In his classical study on the key ideas of the sociological tradition, Robert Nisbet (1970: 56) suggests that the real source for the sociological idea of the 'social' is *communitas* and not *societas*. For the latter is considered to be too impersonal, while the former 'encompasses all forms of relationship which are characterized by a high degree of personal intimacy, emotional depth, moral commitment, social cohesion, and continuity in time' (Nisbet 1970: 47; cf. also Bagnasco 1999: 17–41). Robert Putnam, for one, considers 'social capital' and 'community' to be 'conceptual cousins' (2000: 21). In truth, in some of its meanings, community is for Putnam synonymous with social capital (2000: 274), as the subtitle of his *Bowling Alone*, 'the collapse and revival of American community,' readily testifies. To be precise, not everyone tends to identify the two terms; but it is important to notice such slippage of meaning, since it has consequences for the way in which we conceive the passage from the micro-level analysis of the way in which interpersonal relationships produce social connectedness, to the macro-level analysis of the effects of social capital on various fields of social action and on social cohesion in general. This slippage of meaning has also important consequences for the way in which social capital discourse operates in both normative and policy-making contexts, for discussions of community (vs. society) and communitarianism (vs. liberal individualism) have long shaped such contexts and contributed to form both policy instruments and general sensibilities towards conceptions of community and society.

The second observation concerns a more analytic point, which many implicitly recognize, but whose implications are rarely discussed in full. Much of social capital research focuses on the way in which individuals and the collectivity relate to each other, and how social capital can be a resource for both of them. But when we consider social capital as an element of social cohesion, it becomes apparent that we are no longer dealing with two main 'entities', the individual on the one hand, and society (or a group) on the other. Rather we are dealing with a tripartite relation between the individual, the group or network in which he or she operates, *and* society. Indeed, some of the crucial issues about social cohesion are determined by the way in which groups and society relate to each other, so that the building up of social connectedness within the group (and the private and public goods resources that flow from this) has externalities for 'society', or for other individuals in society who are not part of that particular group or network. As we shall see, this tripartite relationship is crucial for correctly identifying the effects of social capital, for making distinctions between different types of social capital and different policies related to it, and for an informed discussion of social capital's normative value.

1. The Causal Circle

Part of the success of social capital as a concept is that it purports to offer a causal explanation for a series of social outcomes. The problem with this, however, is that in order to agree on the explanatory power of social capital we need first to agree on what social capital is, or stands for, beyond a generic reference to 'social connectedness'. Many of the chapters of the Handbook grapple with this problem; for the purpose of our present discussion, we only need to indicate some of the definitions used in the literature.

In general, we may refer to three broad meanings. One focuses on the resources provided by being connected to a social network. These may take different forms, such as information, personal support, capacity for coordination and cooperation, and the ability to sustain social norms. A second refers more specifically to the way in which being part of a social group, or being socially connected, fosters attitudes and behaviours of social cooperation, and favours both the production and the internalization of social norms. In such cases, social capital is often thought to include attitudes such as trust, or practices such as generalized reciprocity. The third meaning stands for a more culturally and morally embedded capacity to relate to others, to care for their needs, and to internalize a sense of the common good. Such a capacity is often referred to as *civicness*, or similar such virtues. All three meanings emphasize the importance of being socially connected, but they conceive it according to different degrees of moral thickness. Thus thin descriptions pay attention to the structural properties of social embeddedness, while thick conceptions tend to rely on more cultural elements.

The way in which social capital affects social outcomes depends on how we understand it: each of the three meanings implies a different way of interpreting the evidence, and different technical instruments to measure such evidence, so that it becomes possible to establish a precise relationship between social capital as an independent variable, and the specific social outcomes that one wishes to analyse. Moreover, whereas thinner and more structural understandings of social capital operate at a more micro-level of analysis, thicker and more cultural interpretations tend to operate at a macro-level. Although complex, the causal relationship between social capital and specific outcomes in politics, the economy, and society is not in itself problematic. Whenever social analysis tries to establish causal relationships, particularly at the macro-level, it faces similar problems, often running the risk of fitting the evidence to the interpretative categories it uses to explain it.

There is, however, another more fundamental difficulty that pertains to social capital as a causal mechanism. As remarked in some of the literature (Portes 1998: 19–20; Portes and Mooney 2002), there is a risk of certain conceptions of social capital, particularly when applied to groups and societies and not to individuals, taking the form of either tautologies or truisms. In the latter sense, the suggestion that societies in which individuals have imbued a sense of the common good have greater social cohesion, and therefore work more effectively, may sound self-evident. In the former sense, there is the risk of logical circularity in the very definition of social capital, since some understandings of it fail to distinguish clearly between sources and consequences (Woolcock 1998: 35). Are information, norms, attitudes, and civic values the stock of 'resources' that define social capital itself? Or are they the consequences of our involvement in social networks? And if the latter, what are the specific mechanisms of social connectedness that produce such consequences? A failure to distinguish clearly between sources and consequences makes social capital both the instrument for the production of particular goods and the goods themselves.

One of the ways in which this circle is broken is by arguing, along neo-Tocquevillian lines and following the second meaning we indicated above, that the goods of trust, reciprocity, cooperation, and internalized social norms (a thin version of civicness) are the specific products of the way in which individuals voluntarily organize themselves within non-hierarchical associations for a wide variety of purposes. It is this social infrastructure of groups and associations, and the attitudes they foster, that both facilitate social exchange and educate citizens in the social virtues. This interpretation, as Marc Hooghe discusses in Chapter 20, presents its own problem of causation. It is unclear whether, as the neo-Tocquevillian thesis tends to suggest, membership in voluntary associations produces sociability and positive social attitudes, such as generalized trust, reciprocity, and willingness to cooperate; or whether, on the other hand, there is a converse causal relationship, reflecting the fact that people who already possess those social attitudes tend to join in social groups. Hooghe's suggestion is that the social capital literature has much to gain from engaging with a burgeoning literature in social psychology, particularly around the concept of 'social identity', which also deals with the relationship between group membership and social attitudes. Overall, he believes that such a literature gives some credence to the self-selective model, but that in democratic societies the socialization model plays an equally important role insofar as the diffusion of voluntary associations, where positive social attitudes prevail, amplifies their role as promoter of pro-social values.

Although Hooghe's virtuous circle between socialization and self-selection mechanisms seems convincing, the debate over what causal mechanisms are at play in social capital explanations, particularly in the neo-Tocquevillian model, highlights the divarication between structural and cultural interpretations of social capital as a social mechanism. It also suggests, as a number of studies have emphasized, that the privileged position given to membership in voluntary organizations in social capital literature may be either overstated or conceptually unwarranted. Families, schools, and even national communities could be said to be as important as social networks are in the production of social capital when this is identified with the cultural and attitudinal resources of a society (cf. chapters by Newton and by Whiteley in van Deth et al. 1999).

2. Justice and Equality

The issue of membership is a crucial one when we come to the normative aspects of the relationship between social capital and social cohesion. This is at the centre of the contribution by Steven Durlauf (Chapter 21), who takes social capital mechanisms to be part of a more general class of group membership mechanisms. As he discusses in his chapter, such mechanisms have an important role in determining people's behaviour, not least their economic behaviour. This directly *social* component of behaviour is often overlooked in economic analysis, but it has an impact on distributive outcomes, thus affecting social equality, something that has important normative and policy-making implications.

There are two interrelated elements that emerge from Durlauf's analysis of membership and inequality in connection with the role of social capital. One is the vexed question of 'bad' social capital, and the other is that of the effects of social capital on society at large. The question of 'bad' social capital is discussed in other contributions to this Handbook, but it is worth returning to it briefly. Early discussions of social capital concentrated almost exclusively on its positive effects.[2] This was due to the fact that the focus of analysis was either on the individual or on the main community of reference. Moreover, the analysis of the effects of social capital was primarily concerned with the way in which this facilitated the satisfaction of the individual's preferences, without considering either the worthiness of the preferences themselves, or externalities affecting individuals outside the group of reference. As we have already noted, the effects of social capital change somewhat when they are considered within the tripartite relationship comprising the individual, his or her group of reference, and society at large (or other individuals outside the group). This may depend either on the nature of the activities in which the group is engaged or on the kind of goods that social capital facilitates to acquire.

There are at least three instances in which social capital may affect society negatively because of the activity of the group. One is the case in which the main purpose of a group or network is to *harm* others, as in the case of criminal gangs and mafia networks. The second case is that in which groups and networks are formed in order to keep them separate from society, thus *excluding* others—even though their activities may be entirely within the law. The third case is the one in which a group's or network's activity results in them acquiring *dominion* over a particular area of social activity, hence contributing to their domination over other individuals or groups.[3]

The possible negative effects of social capital in relation to the goods provided by membership are specifically connected to social inequality. As Durlauf's chapter clarifies, a large class of the private goods that come through our social connectedness (and more often through 'weak' rather than 'strong' ties, as argued by Granovetter (1973)) are positional goods (Hirsch 1977:

27–54), or at least scarce goods for which we are in direct competition with others. The comparative advantage that an individual has through his or her social ties is at the same time a comparative disadvantage for another individual. Since social capital may have a systemic effect on the distribution of positional goods, it is likely that individuals who have high social capital, or belong to groups where there is a high social capital of the right kind, may end up at the top of the social scale. This obviously undermines equality of opportunity.

The second type of negative effects in relation to membership goods is an extension of the first. It is indeed likely, as also discussed by Durlauf, that in the case of goods like education the way in which social capital contributes to an unequal distribution of opportunities does not affect individuals in isolation, but extends to both the group to which they belong and across generations. In this way, social capital may contribute to either social segregation, or the preservation of social privileges.

This brief discussion of the 'bads' of social capital, such as the increase of social inequality, helps us focus on the crucial normative issue involved in discussions about the effects of social capital, which is the relationship between society as a whole and the groups or communities comprising it, and how the individual relates to either of them. This issue has been at the centre of intense discussion since the 1980s in normative political theory, providing focus to the debate between 'liberals' and 'communitarians' (cf. Kymlicka 2002: 208–82), and determining their different conception of justice. Flavio Comim's contribution to the Handbook (Chapter 22) offers an interesting reading of this debate by contrasting some of the underlying communitarian assumptions in Putnam's analysis of social capital with Amartya Sen's more liberal individualist theory of capabilities. Even though both approaches emphasize the relational aspects in theories of development and social inclusion, Sen's position expresses a number of liberal concerns over the dangers that come with constructing too strong ties within a community. The main dangers are of two kinds, and are closely connected to some of the possible negative effects we have just analysed. The first is that of exclusion, and comes from the fact that strengthening the ties within a group may also have the effect of creating greater barriers against outsiders. The other is that of internal oppression, since the thick web of informal social exchanges characterizing well-connected groups may also come with an increased burden of responsibilities and obligations, which may stifle individuality and individual freedom. On the other hand, as Comim suggests, social capital theory offers a useful correction to individualistic theories of freedom by emphasizing the importance of the network of social relationships in which we live our lives for developing what Sen calls our capabilities.

From the point of view of social cohesion, it is interesting to note that one of the key questions of the liberal-communitarian debate, the problem of identity, has been either missing or understated in social capital theory. This is obviously so in the thinner and more structural interpretations of social capital. But it is also true for the thicker and more cultural versions of it, which, although they have stressed the importance of deeply rooted social norms and attitudes characterizing societies over time, have hardly remarked on the way in which these are interconnected to social identification processes, or on how the internalization of social norms and obligations towards others is sometimes difficult to disentangle from sense of belonging. Can such a sense of belonging be considered part of social capital? Can it be analytically distinguished from generalized trust and reciprocity, in the way in which these are meant to facilitate social exchanges and social cohesion?

3. Social Policy and Types of Social Capital

Although the social capital literature has not directly confronted some of the normative problems that we have just outlined, it has somehow addressed them by developing a series of distinctions about different types of social capital. These are important because they address the problems concerning the mixed effects of social capital from a more analytic perspective; and also because they help to develop a series of policy tools based on social capital research.

The most important of such distinctions is that between 'bonding' and 'bridging' social capital, where 'bonding' refers to the way in which social capital holds together relatively homogeneous groups, while 'bridging' social capital develops between people across different groups (cf. amongst others: Narayan 1999: 13–15; Putnam 2000: 22–4; Field 2003: 65–70). One of the assumptions of social capital theory, particularly in its more cultural version, is that the attitudinal resources developed through 'bonding' social capital would transfer to relationships outside the group, so producing and reinforcing civicness and social virtues in general. The socialization model discussed by Hooghe supports this, and there is some evidence in its favour. But, as we have seen, such an assumption is not always backed up by an analysis of the micro-level mechanisms operating in the various forms of social capital, and overlooks some of the externalities and collateral effects of social bonding.

The introduction of the distinction between bonding and bridging refines our understanding of the conditions in which social capital promotes social connectedeness, both in one's immediate social circle and in society at large. The chapter by Vivien Lowndes and Lawrence Pratchett (24) makes specific use of this distinction by suggesting that different policy ideas and paradigms are attached to these two forms of social capital. Their chapter discusses the role of social capital research in policy making by pointing out that social capital plays a dual role in it, either as a resource or as an output. The distinction is important, since it fully recognizes, as Lowndes and Pratchett argue in detail, the unequal distribution of social capital within society and some of its negative externalities. It is also important because it allows a distinction to be made between those conditions in which social capital can be either mobilized, or facilitated, or, even, liquidated, thus providing an intellectual framework within which the micro-mechanisms of social capital can be more exactly harnessed to policy priorities, and not generically used as a panacea.

Lowndes and Pratchett also refer to a third type of social capital, which is less often discussed in the literature but which raises interesting issues for both analysis and policy making. This is 'linking' social capital (Woolcock 2001), which refers to the way in which social connectedness may operate within more formal and hierarchical organizations or relationships. From an analytical perspective, linking social capital seems to challenge two important features of traditional social capital theory, particularly it its neo-Tocquevillian version. First, the 'linking' dimension suggests that social capital is produced in more formal organizations, thus questioning the emphasis that the literature traditionally puts on participation in voluntary and civil society organizations; it also challenges the implication that social capital is the product of social, rather than political, exchanges, that can be more easily fostered by engagement in more informal relations, rather than through action by either the law or the state. Secondly, the assumption that social connectedness has a significant role in hierarchical structures challenges the basic egalitarianism underlying theories of social capital, since this assumes that willingness to cooperate, mutual trust, and reciprocity are the products of more horizontal relationships.

The first challenge is, by now, more firmly established in the social capital literature. Basically, it introduces two important, though perhaps controversial, corrections to the theory. On the one hand, there is the argument, as

Peter Evans (1996) has put it, of a 'state-society synergy', so that state action and community mobilization are seen as complementing each other. On the other, there is the suggestion that social capital, particularly in the form of generalized trust, needs as a background condition the existence of political and legal institutions that are perceived as being both impartial and uncorrupted (Rothstein 2003: 69); something that requires a 'scaling-up' of the community's horizons through a linkage with larger scale institutions, so as to overcome communities' intrinsic parochialism (Evans 2002). This argument would seem to suggest that certain attitudinal characters associated with social capital need weaker links, rather than stronger.

The second challenge posed by the idea of linking social capital is less problematic, since it would seem to be more an application of the idea of social capital to a different context, rather than a weakening of its core elements. The use of social capital in the context of 'vertical' relationships works partly as a redescription of hierarchical structures in terms of 'horizontal' relations. Linking social capital conceptualizes the interactions between agents of governance as taking place within a social network, thus cutting across the classical divide between the public and the private, while connecting citizens and public officials in forms of participatory governance, which, as Lowndes and Pratchet argue, operate both in policy decision making and service delivery.

This idea of elements of social connectedness in relationships characterized by vertical power differentials is particularly relevant with regard to poor communities, to delivery of public and private services, and to welfare provision in general, where most services are based on face-to-face interaction between citizens or consumers and professionals (Szreter and Woolcock 2004). The question of social capital in welfare policies is at the centre of Bill Jordan's contribution to this Handbook (Chapter 23). Whereas Lowndes and Pratchet tackle the question of the role of social capital research in policy making from a more formal perspective, discussing how social capital approaches may determine different 'styles' and paradigms of policy making, Jordan is more interested in the way in which social capital research has been appropriated ideologically by third-way welfare reform programmes.

Jordan's critical analysis of such an appropriation brings to the fore some of the underlying tensions within social capital theory. Interestingly, he characterizes the third-way welfare regimes as a mix between communitarian and neo-liberal instances, where elements of solidarity and social cohesion are carved out within a market environment. This highlights the inherent tensions of third-way welfare regimes, whose basic principles, freedom of choice and community, often pull in opposite directions. What is particularly interesting, from the perspective of this Handbook, is that the harnessing of social capital research to this welfare reform agenda does not seem to have come about solely from the link between ideas of social capital and community, but also stems from the inner tension characterizing social capital theory: the tension between a comfortable vision of close-knit communities and the individualist ontology that characterizes its original rational choice matrix. Moreover, the neo-liberal idea of choice is often conjugated with that of 'self-reliance', which also characterizes social capital approaches in policy making since they tend to promote the autonomy and self-reliance of communities and individuals by helping them to develop their own social networks as a means to acquire particular goods.

There is an ambiguity, however, in the over-imposition of neo-liberal and social capital-based ideas of self-reliance. In the neo-liberal version, self-reliance means personal independence (from others), and it mostly refers to individuals; in the social capital version, it means the building up of autonomy and capabilities, and it usually refers to communities. It remains nonetheless true that at a policy level, and particularly in the Third Way's ideological appropriation of some of the social capital themes, the tension is internal to social capital theory itself. The point is elaborated by Jordan when he discusses the specific nature of 'relational goods', by which he means both the way in which the building up of a personal relation contributes to the achievement of external goods, and the fact that the building up of the relationship is a good in itself (although he also warns about the complex way in which personal relationships can also have downsides). Although social capital combines instrumental and expressive elements of social connectedness in ways similar to the idea of relational goods, both its theory and its policy application tend often to pull either in the community or in the market-oriented direction. If the elements of community are overemphasized, the risk is that the web of social relationships, however supportive, may end up entrapping the individual. If the elements of (market) society are overemphasized, the risk is that we lose the intrinsic satisfaction that we find in social relations, which is also what makes society work.

This intermediate position of the social capital approach between community and society, or in ideological terms between communitarianism and liberalism, represents both its strength and its weakness. Its weakness, insofar as its social policy prescriptions often risk pushing in one or the other direction, hence losing their distinctiveness; but also its strength, since it is one of the fundamental intuition of the social capital research programme that both community's support and society's freedom are essential to modern life in complex societies.

Notes

1. For a brief overview of studies in some of these areas, cf. Halpern (2005: 73–169), and Field (2003: 45–50, 57–65), and Szreter and Woolcock (2004).
2. This oversight was at the basis of a number of criticisms of social capital theory. However, it is now generally accepted that social capital can have socially negative effects. In spite of this, there are very few analyses of the nature of 'bad' social capital (for further discussion, see Chapter 5 in this volume).
3. There is another kind of externality of social capital that depends on the activities of the group, but which affects members of the group itself rather than outsiders. This is the case when, as part of the group's activities, some of the members may be either *oppressed* or placed in a *subordinate* position. From the society's perspective this is a bad outcome, even though the oppressed members themselves may willingly accept their state of subordination.
4. Evans (1996: 180) calls the possibility of developing vertical connections between agents of governance 'embeddedness', and he considers these connections as supportive of the way in which state and society act in complementary ways (at least when this does not take the form of either corruption or rent seeking). Michael Taylor (2006: 189), on his part, talks of the possibility of 'vertical social capital' when more cooperative forms of interactions develop within an organizational hierarchy.

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CHAPTER 20

VOLUNTARY ASSOCIATIONS AND SOCIALIZATION

MARC HOOGHE

1. Introduction

When Alexis de Tocqueville first set sail toward the United States in 1831, his main goal was to ascertain how American society succeeded in maintaining its internal order and social cohesion in the absence of strong traditional leadership structures. His answer to that question is by now well known: he attributed the dense network of voluntary associations with the function of being one of the main sources of social cohesion in American society. According to the classical Tocquevillian thesis, voluntary associations are thought to have both external and internal functions. Externally, they serve as structures allowing citizens to overcome collective action problems and to produce collective goods. Later on, it was assumed that because of this function, they also provide incentives to government agencies to become more responsive toward citizens' needs and demands. The internal function is summarized in the famous notion that associations serve as a 'learning school for democracy', socializing their members into more democratic value patterns. The expectation is that, because of their interaction with other members and the need to achieve joint decision making within the association, members will gradually internalize the democratic ethos of tolerance, negotiations, role-taking, and respecting procedures (Tocqueville 1835 [1992]).

Looking back at the way these Tocquevillian notions have been used in most of twentieth-century social science research, it is striking to note that most authors have concentrated their work almost exclusively on the political dimension of the effects of voluntary associations. A typical, and highly influential example here could be Almond and Verba's *Civic Culture* (1963), demonstrating a positive correlation between membership in voluntary associations and political empowerment. Members of associations tend to develop a more positive outlook toward the political system, while they also score higher on political efficacy: 'The organizational member, compared with the non-member, is likely to consider himself more competent as a citizen, to be a more active participant in politics, and to know more about politics' (Almond and Verba 1963: 265). The relation between these attitudes and membership in voluntary associations was shown to be strongest in political associations, but the relation was also significant with regard to membership in non-political organizations. The finding of a positive relation between associational membership and political efficacy since then has been repeated quite routinely, however, without any firm conclusions on the matter of causality.

Mostly as a result of the success of Putnam's seminal volume on civic traditions in modern Italy, during the past decade the scope of research on voluntary associations has again widened, to include a vast array of social capital measurements, including generalized trust and norms of reciprocity (Putnam 1993: 119). Despite the fact that Putnam (1993) claimed that voluntary associations have an effect on the responsiveness of regional governments, the theoretical claim in his book goes much further, by also attributing them with an important role in establishing social cohesion and promoting social norms. However, just like Almond and Verba had done three decades earlier, Putnam (1993) stopped short of developing a fully elaborated causal model to explain the observed relation between associational memberships and attitudinal social capital measurements. His description of civic life in northern Italy, however, was largely taken to imply a causal relationship, with civic attitudes 'arising' from the immersion in social networks and the interaction with other group members. Despite the fact that Putnam himself later on would vehemently deny that this was the implication of his Italian study (Putnam and Goss 2002: 10), this interpretation started to lead a life of its own, and the assertion that in some way or another associations generate social capital has been a topic of intense academic debate since then (Hooghe and Stolle 2003). A basic assumption in this debate was that membership in voluntary associations would lead to the socialization of generalized trust, which is a crucial indicator for social cohesion.

The expectation that membership in associations has socializing effects, is by itself an intuitively appealing idea, and it has long been a basic expectation in sociology and political science (van Deth 1996; Warren 2001). Nevertheless, this assumption is also highly problematic, since we cannot rely on a precise causal mechanism to explain why joining an association would have such a powerful socializing impact. What exactly happens in associational life, that it could have these strong effects on attitudes and norms? And even if one could firmly establish the occurrence of socialization effects within voluntary associations, this only begs the question what is so specific about these associations. Why would associations have more powerful effects than, for example school, families, friends, or work environments? (Newton 1999; Mutz and Mondak 2006.)

There seems to be little doubt that, at least on an aggregate level, one can observe a strong and significant correlation between the density of membership in voluntary associations and the adherence to at least some of the norms and attitudes that are associated to the notion of social capital (Newton 2001; Kim 2005). When comparing countries, a typical finding is that in societies with higher aggregate levels of civic engagement, the average levels of social and institutional trust tend to be higher as well (Newton and Delhey 2003). At the individual level, however, this relation has only been demonstrated with regard to some political attitudes, not with regard to others (Bowler, Donovan, and Hanneman 2003; Stolle 1998; Gabriel et al. 2002; Li, Pickles, and Savage 2005). Thus far, there is little empirical evidence that membership would lead to the development or strengthening of generalized trust.

This research inevitably raises the question of how one can explain the relation between associational membership and civic attitudes, and in this respect, two strongly opposed models dominate the field. Some authors rely on a *socialization* logic: because of the interaction with others, members of voluntary associations are socialized into more social value patterns. Subsequently, these positive attitudes are transferred to society as a whole: members do not only learn to trust their fellow members, but they also develop trust in other citizens (Stolle 1998). Rosenblum (1998) claims that even non-democratic organizations have this effect, and thus can be seen as sources of social capital. In some of his earlier work on social capital, Putnam (1995: 666) clearly argued in favour of this view: 'the causation flows mainly from joining to trusting'.

Other authors are sceptical about the claims of the socialization school and they stress the importance of self-selection (Newton 1997, 1999; Stolle 1998). Persons with antisocial attitudes will refrain from joining voluntary associations, and these associations will recruit members who already have high trust levels. This pattern of selective recruitment is taken to explain the positive correlation between membership and social capital. Uslaner (2002) follows the same logic when he states that some people simply have a more optimistic and more trusting outlook towards life (due to youth experiences), and therefore will be more inclined to join all kinds of associations.

At the present state of research, the debate between socialization and recruitment approaches remains unsolved (Dekker 1999; Paxton 2002; Hooghe 2003; Letki 2004). Within the body of social capital literature, no one really denies that a process of self-selection takes place: it seems self-evident that not everyone will experience the same inclination to join voluntary associations. The basic research question, however, is to know whether voluntary associations have an *additional* socialization effect (Stolle 2003): even after discounting the recruitment effect, is there still some socialization effect left, and, if so, what causal mechanism is responsible for the occurrence of this effect?

In this article, we first review the results of the empirical research on the relation between participation in voluntary associations and social capital attitudes. Subsequently we focus attention on some of the proponents of socialization and self-selection approaches. After this review of the social capital literature we are left with the basic question whether, and if so, under what circumstances, participation in voluntary associations could exert socialization effects. To answer this question, we turn to the burgeoning social psychological literature on group socialization and identity, a field of research that is largely neglected by social capital studies. We try to show that the results from social psychological research can be used to qualify the standard Tocquevillian approach to voluntary associations and democratic attitudes.

In the final section of this chapter, we integrate these social-psychological findings into the debate on social capital, using data from a Belgian survey on participation as an example.

2. The Relation between Participation and Attitudes

While there is significant disagreement about the exact definition or conceptualization of the notion of social capital, there is a broad consensus that social capital encompasses both structural and attitudinal components. Structural refers to the network positions of an individual, whether these networks are formal (work environment, voluntary associations) or informal (peer group, friends, neighbours). The attitudinal elements refer to various attitudes that are thought to be related to social cohesion and thriving communities (generalized trust, reciprocity, tolerance). A crucial research question, however, is to determine how the structural and attitudinal elements of social capital are linked together, and whether there is any causality involved in this matter. In most of the literature of the 1990s this question about the relation between structures and attitudes was narrowed down to the question of how voluntary associations, which can be considered as a prime example of structural social capital, also have an effect on attitudinal variables.

Participation in voluntary associations has always been attributed a key role in the study of political culture and democratic attitudes. Associations were considered to function not just a socialization context, but also to provide a structural linkage between individual citizens and the political system: 'If the citizen is a member of some voluntary organization, he is involved in the broader social world but is less dependent upon and less controlled by his political system' (Almond and Verba 1963: 245).

In subsequent work, it was shown that members of associations indeed tend to be more interested in politics and are more engaged in political affairs, while they also feel more efficacious as citizens than non-members do (van Deth 1996). To some extent, one could argue that this relation is self-evident: if we assume that voluntary associations play a key role in transferring citizens' preferences and opinions toward the political system (Verba 2003), it seems quite natural that those who are involved in these associations will feel more efficacious, for the simple reason that they can rely on more, and more effective, channels to get their voice heard by political decision makers.

In the literature of the 1970s and 1980s, this relationship between associational membership and rather strictly political attitudes was well established. Putnam's study on civic traditions in Italy, however, added a new dimension to this field of research by suggesting a causal relation between membership in voluntary associations and a much broader array of civic and social attitudes. Putnam highlighted not only the external effects of voluntary associations, but also their effect on building norms of reciprocity and trust: 'Networks of civic engagement foster robust norms of reciprocity . . . Networks of civic engagement facilitate communication and improve the flow of information about the trustworthiness of individuals . . . other things being equal, the greater the communication (both direct and indirect) among participants, the greater their mutual trust and how easier they will find it to cooperate' (Putnam 1993: 173–4). On an aggregate level, Putnam's study of Italy shows abundant evidence that in the regions with the highest density of associational involvement, generalized trust scores and the performance of political institutions tend to be higher. Nowhere in this study, however, is individual-level evidence for the alleged relation between participation and trust offered.

Since 1993, a considerable amount of effort has been made to substantiate the claim about a direct relation between membership and social capital indicators (Stolle and Rochon 1998; Paxton 1999; Uslaner 2002; Newton 1999; Claibourn and Martin 2000; Gabriel et al. 2002, Freitag 2003). The available evidence, however, is far from conclusive: certainly with regard to generalized trust, the effect of voluntary associations usually tends to be either non-existent or non-significant (van Deth et al. 1999; Whiteley 1999). Effects seem to differ, however, depending on (1) the intensity of the participation; (2) characteristics of the association, and (3) the dependent attitudinal variables being investigated.

Intensity of participation, however, is not an easy indicator to use in standard quantitative research settings, which routinely relies on survey data, where all kinds of memberships and associational involvements are lumped together. The basic expectation with regard to the intensity of participation would be that more intense forms of participation lead to stronger and more persistent socialization effects. It is exactly because of the face-to-face interaction and the exchanges with the other group members that people are socialized into more civic value patterns, it is assumed. For that reason, Putnam (2000) and Skocpol (2003) are rather pessimistic about the consequences of the current trend toward more passive and distant forms of membership affiliation. Professional advocacy networks no longer rely on routine face-to-face contacts between the members within local chapters. Often the main linkage between members and the national headquarters of these professionalized organizations is the regular financial contribution from the members, and the reading of a newsletter or a magazine. While these professional advocacy networks might still have external effects on a national level, it seems more doubtful whether they still exert internal effects on their members, or within their local communities (Stolle and Hooghe 2005). Countering this pessimistic assumption, Wollebaek and Selle (2003) produce evidence demonstrating that passive membership can lead to just as powerful attitudinal effects as active membership. They explain this finding by invoking an identification mechanism: the most important element is that passive members, too, identify strongly with the values and the goals of the association, even if there is very little contact between the members. In this respect, the association and its members will function as a psychological and moral reference group, which could have an enforcing effect on the socialization of values.

Not just intensity of participation, but also associational characteristics are believed to the precise effects of socialization experiences occurring within the association. Levi (1996) already focused attention on the 'dark side' of social capital: in some associations distinctly anti-democratic and distrustful attitudes are being cultivated, and it seems quite unlikely that in this kind of associations the beneficial elements of social capital would be reinforced. Warren (2001) argues that the explicit goals of the association should be taken into account: associations with a more socially oriented or even altruistic goal will have more beneficial socialization effects than associations that are merely oriented toward interest articulation or leisure activities. The impact of sports, leisure, and interest groups tends to be more limited than the impact of social, cultural, and/or religious groups. To complicate things even further, this pattern shows strong variations across societies: while some associations are correlated rather strongly with social capital attitudes in one country, the same kind of association does not necessarily have the same effect in other countries (Gabriel et al. 2002; Freitag 2003). Partly, this can be due to the difficulty of establishing valid comparable measurements across societies: not in all countries, being a member of, for example, a trade union will have the same meaning, and in some countries one might even wonder whether this form of membership should still be called a form of *voluntary* engagement.

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A third source of variation might be that membership does not have the same effects on all kinds of attitudinal components of social capital. Already from the Almond and Verba volume, we know that associational membership is closely related to political attitudes, like political efficacy, political interest, and to some extent even trust in political institutions. The same kind of relation, however, has not been documented for all attitudinal elements of social capital. This variation too, might lead to an undue generalization of research results that have a bearing on just one specific attitude.

While the effect is mostly non-significant with regard to generalized trust, the same pattern cannot be observed with regard to political interest or efficacy. Bowler, Donovan, and Hanneman (2003: 1126) arrive at the conclusion: 'membership in some private, non-political associations is associated with greater political engagement in Europe. This suggests that activity in such groups may generate democratic virtues.' In their study they use as an operationalization of 'political engagement' an index composed of discussing politics with friends, trying to convince others of political views, being a member of a political party, and being interested in politics. Since a number of these variables refer to actual behaviour that could be related to associational involvement, this raises important questions about causality and tautological relations, even more so than using purely attitudinal variables.

The only conclusion to be drawn from the current state of research is that evidence for the effect of membership on generalized trust is rather shaky, at least on the individual level. The relation is stronger on the aggregate level: countries with a high density of associations and membership also tend to be highly trusting societies. This aggregate relation, however, does not inform us about the causal link between these two variables, as long as we do not have access to a reliable micro-mechanism to explain what exactly goes on within associations.

3. The Socialization Perspective: Tocqueville to Putnam

The classical point of departure for the socialization perspective is Tocqueville's early nineteenth century description of democracy in America. According to Tocqueville, the art to unite should be considered as the 'mother of all sciences'. Because of the freely chosen interaction with other group members citizens are imbued with democratic norms and acquire the skills to discuss with one another, to reach compromise, and to join forces. By stressing the beneficial effects of voluntary associations on the health of democracy, Tocqueville dismissed the traditional fear of 'mischief of faction', as expressed in the Federalist Papers. Even if each and every association by itself only seeks to pursue specific group goals, the aggregate effect would still be that members are integrated into the political system and are imbued with democratic norms.

Clearly, Tocqueville's approach has had a crucial impact on the development of research on associations and interest groups in the twentieth century. Robert Dahl, Almond and Verba, and other authors are strongly inspired by the Republican outlook developed in *Democracy in America* (Warren 2001: 30).

The Tocquevillian approach to voluntary associations has been included explicitly in Putnam's study on civic traditions in modern Italy. In order to explain the strong correlation between associational involvement and government responsiveness, Putnam relies on both functions, already laid out in Tocqueville's writings. Although *Making Democracy Work* has often been summarized with the statement that 'voluntary associations make democracy work', the book itself allows for more qualification. First, Putnam (1993: 90) states that all kinds of associations can have an internal democratic effect, no matter what their explicit goals might be: 'These effects, it is worth noting, do not require that the manifest purpose of the association be political. Taking part in a choral society or a bird-watching club can teach self-discipline and an appreciation for the joys of successful collaboration.' This does not mean, however, that Putnam assumes that all kinds of associations, under all circumstances, will have a beneficial effect on democratic values. In an often overlooked footnote, Putnam (1993: 221) writes: 'Not all associations of the like-minded are committed to democratic goals ... consider, for example, the Ku Klux Klan or the Nazi party. In weighing the consequences of any particular organization for democratic governance, one must also consider other civic virtues, such as tolerance and equality.' The often-repeated critique that Putnam portrays an all too rosy picture of voluntary associations, by turning a blind eye to the 'dark side of social capital', often neglects to mention this (admittedly obscure) footnote.

While in *Making Democracy Work* the causal logic is that civic values are being interiorized as a result of the interaction within voluntary associations, in Putnam's later work this radical claim has slowly been abandoned, partly as a response to the emerging empirical research that failed to turn up conclusive evidence about the existence of a micro-level relation between membership and civic attitudes. In Putnam (2000: 466) a small footnote informs us: 'A lively debate is under way about the direction of the causal arrows among these factors [i.e. associational involvement and civic attitudes]. The debate is important and yet complicated both theoretically and empirically. However, it is only tangential to my concern here.' Indeed, in *Bowling Alone* Putnam considerably widens his scope, by including all kinds of informal interaction patterns, like neighbourhood barbecues or even family dinners, instead of focusing just on formal associational memberships. This move is motivated to some extent by the availability of data sources: while for the Italian study no information at all was available on these informal interaction habits, for the US Putnam could rely on various commercial lifestyle surveys to document the decline of informal social encounters. Nevertheless, it seems clear that the very negative reception of the claim about the importance of voluntary associations in at least part of the empirical literature, has also contributed to this retreat. This becomes even clearer in the volume about *Democracies in Flux*, edited by Putnam (2002). In the introduction to this volume, Putnam and Goss (2002: 10) state: 'Early research on social capital concentrated on formal associations for reasons of methodological convenience, so it is worth emphasizing here that *associations constitute merely one form of social capital*' [emphasis in original]. The implicit claim here is that informal mechanisms probably are just as effective as formal membership for the generation and the socialization of social capital attitudes. In this view, voluntary associations are no longer to be considered as a privileged setting for the development of democratic norms and values.

In the second half of the 1990s, the literature became increasingly critical about the alleged effect of associational membership on social capital attitudes. Most of the studies published during those years did not reveal a significant relation between membership and civic attitudes (Stolle 1998). It is quite intriguing to note, however, that most of this research focused strongly on generalized trust as a dependent variable. In retrospect, it seems unlikely that interaction within voluntary associations would have a powerful effect on the development of generalized trust. Such an effect could only be explained if we rely on two distinct causal mechanisms. First, members will develop trust in their fellow members as a result of the sustained interaction within the association. Subsequently, this feeling of trust is generalized towards society as a whole (Stolle 2003). Both assumed mechanisms are highly problematical. To start with, there is no evidence whatsoever that prolonged interaction in groups would actually lead to higher trust levels within the group. Second, given the fundamental difference between knowledge-based trust and generalized trust (Yamagishi and Yamagishi 1994), it seems unlikely that particularized trust would be converted so easily into generalized trust. It is not because we trust people we actually know, that we will develop trust in complete strangers, about whom we do not have any information (Uslaner 2002; Hardin 2004). But even if this would be the case, it only adds to the problem. If particular trust could be converted so easily into generalized trust, there is no reason to assume that interaction within voluntary associations would be a privileged source of generalized trust. In that case, interaction within families, schools, neighbourhoods, or work environments could function just as effectively as a source of generalized trust.

4. Self-selection

All available evidence indicates that participation in associational life is highly selective: some social groups participate more intensely than others do, and therefore associational members cannot be considered as representative for society as a whole. As Verba, Schlozman, and Brady (1995) note: this finding has important consequences for the allegedly democratic effects of voluntary associations and interest groups. While they may allow citizens a voice in political decision making, access is distributed unequally, giving more voice to the well-off in society than to those with few educational credentials, low incomes, or less civic skills (Verba 2003). This participation bias, however, also implies a challenge for the research on the effects on participation. It is by now well established that almost every background characteristic that is beneficial for organizational membership also has a direct effect on attitudes and feelings of competence and involvement. The observation that members of voluntary associations on average score higher on these indicators than those who are not a member, can at least partly be attributed to different patterns of recruitment.

One of the most important research efforts in this respect was conducted by Stolle (1998), who introduced a time perspective into the study of socialization effects by asking respondents for how long they were already involved in a specific kind of association. If the socialization hypothesis were correct, we could assume that the difference between members and non-members would gradually grow larger, as members are further socialized into a more trusting outlook toward their fellow-members and toward their communities in general. This, however, was not the case: differences between members and non-members were already present among those who had just joined an association, and this finding clearly supports the self-selection hypothesis. Those who already have more social value patterns are far more likely to join all kinds of associations than misanthropes or those who are distrustful (Newton 1999).

A number of authors have tried to disentangle the causal relation between attitudes and membership, and the most quoted article in this respect shows that this relation is firmly reciprocal (Brehm and Rahn 1997). A model, built to demonstrate a causal relation from membership to generalized trust is just a bit stronger than a model designed to demonstrate the opposite causal flow. The basic question in the debate, however, is not whether self-selection occurs: it is quite evident that not all groups within society will show the same tendency to join voluntary associations. A far more interesting research question, however, is whether even after taking into account these effects of self-selection, there are still any *additional* socialization effects left, occurring as a result of the interaction experience within the association (Stolle 2003).

5. The Evidence from Social Psychology

If we want to ascertain whether associational activity has an additional impact on value patterns, a promising step would be to include the insights from the rich and rapidly expanding research line on socialization within groups. This literature, which often relies on experimental results, however, is all but neglected in the current social capital debate (Haslam 2001).

We can rely on an enormous body of literature and research about what actually occurs within groups, and what are the effects of that interaction. Ever since the classical study of Gustave Le Bon about behaviour in crowds (1895), social psychology has studied the process of interaction within groups (Tajfel 1981; Forsyth 1983; Turner et al. 1987; Hendrick 1987; Paulus 1989; Robinson

1996). During an initial phase in the first half of the twentieth century, this line of research focused mainly on the assumed negative effects of group interaction: it was taken for granted that integration within groups deprived actors of their individuality and rationality, and led to a regression towards more primitive forms of behaviour (Lang and Engel Lang 1961). After the 1950s, this negative outlook seems to have lost its predominance in the field, which is now dedicated to a more neutral study of the phenomenon of group effects (Haslam 2001; Hogg and Terry 2003).

Despite the fact that we can now rely on a plethora of empirical research on group interaction, we do not find any support for some of the basic tenets of social capital theory. There is no indication whatsoever that interaction with other group members would automatically lead to the development of a more socially oriented value pattern, to a rise in trust levels, or to an abolishment of prejudices (Goslin 1969; Duncan and Fiske 1977; Ajzen and Fishbein 1980; Turner et al. 1987; Hogg and Terry 2003). There are even some laboratory experiments showing that group membership can lead to an enhancement of prejudices against members of outsider groups (Skinner and Stephenson 1981; Haslam et al. 1999). We do not have a single indication that group interaction automatically leads to a more socially desired value pattern, and this lack of research data is highly problematic for the central role social capital theory assigns to voluntary associations.

This does not imply that interaction with other group members does not have a socializing effect. It does imply that these effects will not be the same for all interaction contexts, but will be dependent upon context characteristics. To express it differently: the process is endogenously induced, but the value changes are not exogenous. Members of a group are subjected to socialization experiences because they are influenced by the values of other group members, resulting in a process of value congruence within the group (Tajfel 1981; Levine and Russo 1987; Abrams and Hogg 1991). The first systematic description of this process of reciprocal influence among group members can be found in the classical experiments of Salomon Asch (1952), demonstrating that respondents altered their judgements to conform to those of other group members. While these experiments stressed the role of external conformity to group judgements, in more recent research efforts the focus was shifted to the occurrence of more profound influences on the value patterns of the respondents. This form of 'personal influence' within groups is already described, for example, in the classical study by Katz and Lazarsfeld: 'we are led to expect that an individual's opinions will be substantially affected by the opinions of others whose company he keeps, or whose company he aspires to keep' (Katz and Lazarsfeld 1955: 53). During the past decades, this argument has received support from numerous experiments, showing processes of value congruence within groups (for a review, see Levine and Russo 1987; Haslam 2001). The research on the effects of group interaction therefore suggests that values are developed as a result of a dialogue with others, within a specific horizon of significance (Taylor 1989). Voluntary associations can be an important part of that horizon, because they are one of the few interaction contexts which can be chosen by the individual on a purely voluntary basis.

Following this logic implies that the socialization effects of organizations or groups do not originate from outside the group: the interaction does not introduce qualitatively new values into the group but instead enforces already existing values (Katz and Lazarsfeld 1955: 96). The presence of, and the interaction with other group members will influence the values and judgements of individual actors: 'the sight and sound of others doing the same thing as oneself functioned as conditioned social stimuli to release and augment learned reaction tendencies previously existing in individuals . . . Importantly, however, social facilitation did not represent the emergence of new group properties; individual behaviour did not change qualitatively in groups, it was merely "enhanced" so to speak' (Turner et al. 1987: 11). The fellow members, in this respect, function as a 'reference group' (Merton and Kitt 1950), giving the members cues about how to construct and possibly transform their own value patterns.

A recent attempt to build this line of research in a coherent theoretical framework can be found in the social identity, or self-categorization theory as it was developed by Henri Tajfel (1981) and John Turner (1982). In this theory, it is assumed that individuals tend to avoid cognitive dissonance, but at the same time by themselves they are not capable of developing a coherent value pattern that is congruent with the complexity of observations from the outside world. To counter that potential source of insecurity, individuals are dependent upon the interaction and the dialogue with significant others. Turner especially stresses the fact that processes of self-categorization can reduce complexity: individuals learn to see themselves as members of a socially defined category, and they therefore also gain access to the corresponding role and value pattern. The finding that group members are influenced by the judgement of their peers therefore does not presuppose external conformity, but rather documents the way in which individuals actually develop their value pattern in a dialogical context (Abrams and Hogg 1991; Haslam et al. 1999). In the 1950s, the research on group processes mostly assumed a hierarchical model, stressing the influence of group leaders on the attitudes of other members. In more recent research, attention is directed more explicitly to reciprocal processes of exerting influence, although differences do occur as a result of inequalities with regard to social position, gender, or position within the group.

The occurrence of these processes of group influence does not mean that group interaction does not have additive effects, and that its consequences would remain limited to facilitating a convergence towards a pre-existing average position. Because of tendencies towards group polarization, the convergence will occur on a more extreme manner, thus strengthening already existing values: 'uniformities in intragroup behaviour result from the members' opinions becoming more extreme in the socially favoured direction rather than from convergence on the average of their initial position' (Turner 1982: 35). It is assumed, and to some extent also documented, that the presence of like-minded others serves as a stimulus for the individual actor to further develop socially desired traits and values (Fraser and Forsters 1984; Sunstein 2002).

Turner's self-categorization theory implies that socialization will be most successful when the individual is integrated into a group with a relatively homogeneous value pattern and a clearly outlined ideological frame. Homogeneity within the group allows the reinforcement of the influence of the various group members, or at least means that the various sources of influence will operate in the same direction. Interaction with like-minded people can strengthen one's conviction, while interaction with ideological opponents can be a source of doubt or cognitive dissonance. As Verba (1961: 40) already noted: 'the greater the homogeneity of primary group contacts, the greater the intensity of political participation . . . it was found that voters with friends of various political persuasions were less strong in their voting intentions than those whose friends were all of the same persuasion'. More recently, Nieuwbeerta and Flap (2000) confirmed the notion that integration in homogeneous networks with regard to political and social matters is positively correlated with a stronger attachment to these values. At first sight, this insistence on group homogeneity is at odds with some of the current literature, highlighting the importance of diverse interaction settings for the promotion of tolerance (Mutz 2002). This apparent contradiction, however, does not invalidate the basic claim of group psychology. The beneficial effects of diverse interaction settings have only been demonstrated with regard to tolerance.

Although this is indeed a very important democratic attitude, it is certainly not the only value one could associate with a strong civic culture. Furthermore, the problem of causality is just as strongly present: it seems plausible to suggest that those who are tolerant toward opposing views will find it easier to interact with diverse groups. The beneficial effects of diversity, however, have not been demonstrated with regard to values and norms that require a stronger feeling of identification, like partisanship or political convictions. For this kind of attitudes, group homogeneity seems to offer a better context for successful socialization (Huddy 2003).

If we confront this body of empirical research with the assumptions of social capital theory, we run into a clear problem. Authors stressing socialization within organizations assume that the interaction within groups leads to the introduction of qualitatively new values, like generalized trust: the members are socialized into a previously non-existing value pattern. The results of the research line using social identity or self-categorization theory, on the other hand, indicate that no new value patterns are introduced because of the interaction, but also that pre-existing value patterns are made more salient or are reinforced. Both theories predict different outcomes for interaction within voluntary associations. Social capital theory assumes that almost any kind of association will lead to the production of social capital, as long as members interact with one another. Social identity theory assumes that only interaction with like-minded peer group members will strengthen already existing value patterns. The second approach implies that socialization effects of voluntary associations are not uniform, but are dependent upon group and member characteristics. This insight could be an important addition to social capital theory and in the next section we try to put both theories to the test.

6. Testing the Theory: Associations and Ethnocentrism

A Belgian survey on participation in voluntary associations offers a unique possibility to develop such a test. Because the survey contained numerous questions on voluntary participation, it is possible to apply a distinction between various kinds of organizations. In building the argument, we will rely on the results of a face-to-face survey our research unit conducted (n=1341) and which proved to be representative for the Flemish autonomous region in Belgium (Hooghe 2003).

For the purpose of this test, we will focus on just one specific attitude, ethnocentrism. This scale, which has proved to be quite robust, is made up of five items, expressing negative feelings towards outsider groups, more specifically migrant groups. While generalized trust can be considered as a key element of social cohesion, this feeling of out-group hostility has exactly the opposite effect. Furthermore, already since the classical Adorno literature, ethnocentrism is considered as the key element of a complex of authoritarian and anti-democratic attitudes. If social capital theory is right, this would basically imply that we find a reduction of ethnocentrism among members of all kinds of associations in which there is any form of interaction between the members. We could even assume that the reduction is strongest in diverse groups, where there are more opportunities for interaction between members of the dominant group and members of ethnic minorities. If the self-categorization theory were confirmed, this would imply that the reduction occurs mainly in some associations, but not in others. In extreme right or racist associations, we might even observe a strengthening of ethnocentric attitudes.

While Warren (2001) argues that the explicit goals of an association to some extent might explain any beneficial socialization effect the association might have, we did not succeed in finding a clear effect, if we distinguish associations according to their goals. We did observe, however, a clear pattern with regard to the recruitment pattern of various associations. While associations dealing with human rights and peace issues clearly recruit a highly educated membership base, this is not the case for e.g. trade unions or the local branches of the Red Cross (Table 20.1).

The fact that we observe lower average ethnocentrism scores among the more elitist associations should not come as a surprise. Earlier research has shown quite convincingly that education has a strong reducing effect on ethnocentrism (Billiet, Eisinga, and Scheepers 1996).

It is just as evident that the zero-order correlations between membership in this specific association and the score on the ethnocentrism scale are just as clear: these scores suggest that highly educated members of a human rights organization are less ethnocentric than the less educated members of a trade union. But the real surprise is in the final column of Table 20.1, where we represent the partial correlation between membership in that association

Table 20.1. Characteristics of different kinds of organizations

	N	Years education current members	Score ethno-centrism	Zero order correlation	Partial correlation
Peace, human rights	64	13.82	26.4	−0.24***	−0.18***
Environment	82	13.47	31.7	−0.18***	−0.13***
Neighbourhood, school	114	13.25	34.5	−0.17***	−0.11***
Family organization	183	12.78	35.3	−0.14***	−0.10**
Art, culture	111	12.75	37.5	−0.14***	−0.08*
Religion	52	12.74	32.4	−0.14***	−0.11***
Politics	72	12.62	35.5	−0.08**	−0.07*
Youth	49	12.46	40.7	−0.19***	−0.10**
Sports	323	12.26	39.6	−0.15***	−0.06
Caring, altruistic	102	12.18	35.2	−0.11**	−0.10**
Social/cultural	101	12.17	41.9	−0.06*	−0.05
Hobby	111	11.96	42.5	−0.05	−0.03
Red Cross etc.	126	11.66	37.9	−0.07*	−0.07*
Trade Union	470	11.57	40.5	−0.04	−0.02
Women's organization	142	11.31	41.4	0.00	0.00
Local pub-based group	79	10.94	42.9	0.01	0.00
Survey	1,341	11.41	41.3	–	–

Notes: For each kind of organization, the columns represent: (*a*) number of 'ever' members in the survey; (*b*) average years of schooling for current members; (*c*) average score on the scale for ethnocentrism (range 0–100); (*d*) zero order correlation between ever membership and ethnocentrism; (*e*) partial correlation between ever membership and ethnocentrism, controlled for education, age, income and gender of the respondent.

* = $p < 0.05$; ** = $p < 0.01$; *** = $p < 0.001$.

and ethnocentrism. Here we control for the education level of the respondent (and also for age, income, and gender), and still we basically find the same pattern. Associations with a highly educated membership base tend to reduce ethnocentrism more effectively than associations with less educated members.

These partial correlations already suggest that social capital theory runs into trouble when explaining the effect of membership on ethnocentrism: there is no reason to assume that less interaction would occur in women's associations or trade unions than in neighbourhood councils. We can even safely assume that trade unions offer a more diverse interaction setting than an environmental group. Yet, these data suggest that not all groups have the same kind of effect on ethnocentrism.

Table 20.2. Relation between associational membership and ethnocentrism

	B (SE B)	β
Gender	−0.86 (1.06)	−0.02
Age	0.11 (0.04)**	0.09
Income	0.03 (0.20)	0.01
Education	−0.82 (0.20)***	−0.15
Member organization high education level (> 13.0 *y*)	−6.35 (1.31)***	−0.15
Member organization upper middle education level (12.5–13.0 *y*)	−3.83 (1.16)**	−0.10
Member organization lower middle education level (12.0–12.5 *y*)	−1.53 (1.14)	−0.04
Member organization low education level (< 12.0 *y*)	1.81 (1.11)	0.05
Television time	0.22 (0.04)***	0.16
Church involvement	1.38 (1.15)	0.04
Cte.	44.59 (3.92)***	–
adj. r^2: .18	–	–

Notes: Ordinary Least Squares Regression; entries are non-standardized (with standard deviation) and standardized regression coefficients.

* = $p < 0.05$; ** = $p < 0.01$; *** = $p < 0.001$.

Self-evidently, partial correlations might form a useful technique to explore of this kind, but they cannot be considered as firm evidence. If we move to multivariate regression, however, we run into the problem that we cannot include simultaneously the membership of sixteen different associations into the regression. Therefore we had to limit the number of independent variables, by regrouping the associations, depending on the average education level of their members. While some associations clearly cater to a highly educated audience (with >13 years of finished schooling), this clearly is not the case for other associations, while clubs associated with a local pub, trade unions, and women's association mainly attract lowly educated members (with on average >12 years of finished education). Based on the average educational level, we constructed four groups of associations. These groups could be entered simultaneously in the regression, with membership in each category coded as a dichotomous variable. Self-evidently, the model also included all other elements that could have an effect on ethnocentrism, as shown by previous research on this attitude (Table 20.2). These individual characteristics do not reveal any surprise, with a positive effect of age and television time, and a strong negative effect of the education level of the respondent.

What is more surprising is that only some kinds of associations have a significant effect on ethnocentrism. The effect is strongest for associations with on average highly educated members and it becomes even slightly (but not significantly) positive for the associations with lowly educated members. It is important to note here that the regression includes a control on the education level of the respondent. What we basically measure here, therefore, is not the education level of the associational member, but rather the association level of with whom one interacts within an association. It is more than likely that highly educated members of associations already have a lower level of ethnocentrism, but apparently this level is even further reduced when interacting with like-minded fellow members. Therefore, as Katz and Lazarsfeld already predicted, it seems more important with whom you interact, than the mere fact that you are interacting with other people. The pattern we observe with regard to these Belgian associations, therefore, clearly supports the social identification theory, and it does not offer any support for the mainstream social capital theory.

7. Conclusion

Within social capital theory, there are two competing explanatory models for the observed positive relation between membership in voluntary associations and the adherence to social capital values. While some authors try to explain this relation by invoking socialization processes, others rely on effects of self-selection. One of the main problems of the socialization thesis is that some of its key assumptions about the influence of group processes are not supported by the empirical and sometimes even experimental research on group interaction. Within this social psychological line of research, we do not find a single indication that interaction within groups would lead to the strengthening of generalized trust or other socially desired attitudes. This line of research does show that value congruence occurs within groups: members reciprocally influence one another's value patterns and attitudes. Our survey results do not support the generalized socialization thesis that is prevalent in social capital theory: on an aggregate level we do observe a negative effect of participation in voluntary associations on ethnocentrism and other negative attitudes, but when we look at it more closely, we can observe that this effect is not uniform for all kinds of organizations. Only those organizations for which we can assume that, given the average education level of their members, they create interaction environments which are hostile to the expression of ethnocentric stereotypes, effectively reduce ethnocentrism levels, even after introducing controls for the education level of the respondent. This would indicate that the socialization effects of interaction within voluntary associations are not uniform, but are context dependent, as we would expect following social identity theory. For social capital theory, this implies that voluntary associations do have socialization effects, and the Tocqueville approach to the 'learning school of democracy' should therefore not be completely discarded. Maybe associations do not have a strong effect on generalized trust, but they can have an effect on some of the other attitudes that are associated with social capital and social cohesion. The Tocqueville thesis, however, should be qualified: the effects are slightly different from what is usually expected in this line of research. Relying on a combination of the Tocquevillian literature and the results from experimental social psychological research, we have found a sound causal mechanism to explain these socialization effects.

The finding also allows us to reconcile two of the main currents of thought within social capital theory. Too often it is assumed that processes of self-selection and socialization exclude one another. The line of reasoning seems to be that if we can explain the positive relation between participation and social capital by one of these theories, we no longer need to postulate the existence of the other one. However, if social identity theory is correct, and if our findings are to be confirmed in other research settings, this would imply that self-selection and socialization do not stand in a zero sum relation, but on the contrary, that they interact. It is only because self-selection occurs that associations constitute distinct interaction environments, leading to context-specific socialization effects. If socialization really occurs in this manner, this does not imply that associations do not *add* anything to a pre-existing average of attitudes and opinions, and simply allow a convergence around this average. First of all, one should keep in mind that individuals do not develop their value patterns in splendid isolation but in a dialogue with significant others. Associational membership is one of the venues to choose the company of these other actors. Secondly, as research into group polarization processes demonstrates, convergence will not occur on a pre-given mean level, but on a more extreme level. The end result is more than the sum of the individual initial averages. This interaction of self-selection and socialization implies that actors do make a deliberate choice to join an interaction sphere, but subsequently are influenced by that sphere. It therefore corresponds to the way de Tocqueville originally described the function of voluntary associations as 'l'action lente et tranquille de la société sur elle-même' (Tocqueville 1835 [1992]: 412). The effect of interaction within voluntary associations does not appear as a *deus ex machina*, as a result of exogenously induced changes, but as an enhancement of previously existing value patterns. A criminal organization will attract a certain selection of members but subsequently, it will socialize them further in a corresponding value pattern, thus effectively producing a form of 'unsocial capital' (Levi 1996). Therefore, we have no reason to assume that all voluntary associations in all circumstances will contribute to the formation of what we now see as socially desired forms of social capital. What makes voluntary associations an important source of social capital, however, is that in current Western liberal democracies there are many more associations producing social capital than there are producing 'unsocial' capital, by promoting, for example, intolerance, fanaticism, or racism. Because of the fact that the more civic minded people are more easily organized than the misanthropes, on an aggregate level, their norms will be spread more successfully by the whole of civil society, than the values of the misanthropes. This would mean that we should not expect each and every association to have a positive effect on social capital, but, within contemporary Western liberal democracies, associational life as a whole will be a vehicle to spread pro-social values, and will thus function as a source of social capital.

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CHAPTER 21

MEMBERSHIPS AND INEQUALITY

STEVEN N. DURLAUF[1]

1. Introduction

Broadly understood, social capital refers to various types of community relationships that affect individual outcomes. As such, social capital is involved in many of the areas of current social science research where the explicitly social determinants of behaviour are fundamental.

Since Loury (1977) introduced it into modern social science research and Coleman's (1988) seminal study placed it at the forefront of social research, the term social capital has spread throughout the social sciences. Despite the immense amount of research on it, however, the definition of social capital has remained elusive. From a historical perspective, one could argue that social capital is less a natural kind in social science analysis than an umbrella term that encompasses distinct research interests and questions all of which are attempting to meld individual and social explanation in ways that transcend traditional interdisciplinary boundaries; Durlauf (2002*a*) makes some criticisms of Putnam's work for this reason. That said, there are important commonalities in different efforts to define social capital; Durlauf and Fafchamps argue that different conceptualization of social capital generally share three main features:

> (1) social capital generates positive externalities for members of a group; (2) these externalities are achieved through shared trust, norms, and values and their consequent effects on expectations and behavior; (3) shared trust, norms, and values arise from informal forms of organizations based on social networks and associations. The study of social capital is that of network-based processes that generate beneficial outcomes through norms and trust. (2006: 1644)

A fundamental problem with this definition (Durlauf 2002*a*; Durlauf and Fafchamps 2006; Portes 1998) is that it is functional: social capital is assumed to always produce socially desirable outcomes. Such an equation means that policies that promote social capital are always good. For the purposes of this chapter the notion that social capital is always benign will be challenged from the perspective of its effects on equality. Simply put, social capital may be inequality enhancing, and so any policy maker whose objectives include egalitarian considerations will therefore be forced to reject any necessary equivalence between an increase in social capital and better social outcomes.

To see why this can be so, I draw on the discussion in Durlauf and Fafchamps (2006: section 2.4). Suppose that clubs and networks are the mechanisms by which trust is sustained across individuals. These social structures by definition exclude those who are not members, and so create differential circumstances across individuals; Fafchamps (2002) and Taylor (2000) analyse how social groupings can harm non-members. So to assume that social capital necessarily has a positive effect suffers from a fallacy of composition (Durlauf and Fafchamps 2006). In those cases where a group benefits from a higher level of (bonding) social capital, enabling members of the group to have preferential access to a rationed resource, superior information in making decisions, etc., this without doubt has a beneficial effect on the group's members but not necessarily on society as a whole.

Social capital effects are part of a larger class of group memberships effects. The aim of this chapter is to discuss some ideas on the linkages between group memberships and inequality, primarily from the perspective of economics. By groups, I refer abstractly to particular configurations ranging from ethnicity to gender to residential neighbourhoods to schools, each of which helps define dimensions along which interactions among individuals are organized and how individuals perceive themselves. My goal in this discussion is to describe some of the implications of group memberships for understanding socio-economic inequalities. My conclusions on the general relationship between group memberships and inequality in turn may be applied to the social capital context. In fact, one reason for focusing on memberships rather than social capital is that there are few interesting changes when one moves from the general to the specific case.

Some types of memberships effects have long been part of conventional economic analysis; examples include the role of the composition of communities in determining levels of taxes and public good expenditures and the nature and consequences of discrimination. In contrast, the attention given to sociological and psychological effects such as peer group and role model influences is a relatively new development. The various sociological and psychological group memberships effects have been given a number of names including social effects, neighbourhood effects, and social interactions; I will use these terms interchangeably. The substantive idea underlying these terms is commonplace for most social scientists, namely that there exist causal influences on individual socio-economic outcomes that derive from the influences of group memberships such as ethnicity and community.

One important contribution of this new work is that it illustrates how one can meld economic perspectives on behaviour with those of sociology and other social sciences and thereby provide richer and more nuanced explanations of various individual and aggregate phenomena. A primary motivation for the exploration of this class of behavioural determinants is its implication for the distribution of income and other socio-economic outcomes. In Durlauf (1999, 2001) I have argued that these influences suggest a 'memberships theory of inequality' as they constitute a fundamentally different perspective on the sources of inequality from individual or family-based perspectives that are generally studied in economics. The differences in causal mechanisms, have, as I will describe here, implications beyond the specification of theories themselves to normative and positive aspects of policy analysis.

To illustrate the distinction between the old and new perspectives on the determination of inequality, it is useful to consider the differences between models of intergenerational mobility as developed in the late 1970s and early 1980s versus mobility models of the last ten or so years.[2] Becker and Tomes (1979) and Loury (1981) provide what are regarded as classic analyses of the role of family income in perpetuating inequality across generations. The key idea in this work is that individual families face borrowing constraints when providing education to children, so that poor families invest less in their children, regardless of their abilities, and thereby hurt their adult economic prospects. In contrast, mobility models such as Bénabou (1996*b*) and Durlauf (1996*a*) emphasize the role of community factors in producing persistence in family economic status.[3] In models of this type, families purchase access to communities whose educational quality is determined at a community level. This dependence arises both from the public provision of education, so that communities with different tax bases provide different amounts of education (via different per pupil expenditure levels),[4] as well as through various sociological influences such as role model effects that help determine how these expenditures translate into learning ability. So, while family income matters in understanding children's educational outcomes as in the family dynasty models of Becker and Tomes and Loury, the causal mechanisms are factors that are defined at a group rather than a family level.

From this it should be obvious how the discussion of memberships effects is germane to thinking about social capital and inequality. The main causal mechanisms by which social capital has been argued to affect individuals, such as information transmission, or cooperative behaviour,[5] are forms of social interactions. My general arguments about memberships and inequality therefore apply directly to social capital contexts. For example if one argues that a businessman's organization affects levels of trust, one is arguing that common group memberships (i.e. the organizations) have produced effects on how an individual acts towards others. If membership supports repeated business relationships, or if members of the organization share information about new jobs, then those businessmen who are outside the group will have fewer opportunities. A typical theory of group memberships is based on mapping the information and occupational status of members of a group to the outcomes of an individual. So while memberships theories may not explicitly use the terminology of social capital analysis, social capital models are species of it.

In section 2, I review some of the theoretical issues that link memberships and inequality. In section 3, I discuss normative and positive implications of memberships theories. Section 4 provides summary and conclusions.

2. Theories

The introduction of group influences in the determination of individual outcomes does *not* constitute a challenge to the behavioural foundations of economic theory.[6] The introduction of group memberships effects into decision making is perfectly compatible with neoclassical decision theory, when this is interpreted at its most abstract, where individual behaviour is conceived as the purposeful outcome of the evaluation of alternative choices. Individuals make such choices on the basis of their preferences and beliefs, and the kind of constraints they face. Group memberships may powerfully affect an individual's preferences, constraints, and beliefs, but do not impinge on the logic that these constitute the building blocks of decision making.

Intragroup Interactions

In the study of group memberships, most recent attention has focused on the internal influences generated by groups. There are a range of distinct mechanisms that have been posited to explain how groups affect individuals. One division of these various effects that is important for both theoretical and empirical work is the distinction between contextual and endogenous effects. This dichotomy was introduced into economics by Manski (1993) and is taken from sociology, cf. Blalock (1984).

In essence contextual effects refer to those influences that are directly measurable through the characteristics of the group members. In an educational setting, for instance, a contextual influence on outcomes may be the result of role models, such as those offered by the adults in one's community. Formal models of this type have been developed by Roemer and Wets (1995) and Streufert (2000) who demonstrate how, when communities are stratified by income, the differences in this joint distribution across communities can lead to substantial differences in educational investment decisions and thereby lead to persistent inequality.

Endogenous effects refer to those influences that occur because of the contemporaneous behavioural choices of other group members. Peer group effects are of this kind. One important feature of endogenous effects is that they may be reciprocal,[7] something which is not true for contextual effects. From the perspective of inequality, endogenous effects add two important features to group memberships theories. First, endogenous effects can amplify the effects of changes in individual characteristics to outcomes when one considers a group in its entirety. The reason is that each member is affected both directly by a particular cause (e.g. a student receiving a subsidy) as well as by the social interactions induced by the changes in the behaviours of others (i.e. the changes in the behaviour of the other students who have received the subsidy). In other words, there are feedback effects between members of a group, making the average effect on the group greater than the effect produced on average on a single individual.

When these feedback effects are strong enough, then it is even possible for a group to exhibit a second property: multiple equilibria. This means that there is more than one configuration of individual choices that is consistent with the decision-making structures of the individuals in the population. Intuitively, when individual decisions are sufficiently interdependent, this introduces an additional degree of freedom in the collective behaviour of a group as these interdependences require that individuals choose similarly, but do not determine what they actually choose. The presence of multiple equilibria in group outcomes has important implications for thinking about inequality, for it means that two groups with similar individual characteristics can behave differently. Hence inequality can emerge as a purely social phenomenon.

When groups are endogenously formed, memberships effects can play an important role in their composition. Work by Bénabou (1996*a*), Durlauf (1996*a*), and Hoff and Sen (2005) among others, has shown how social interactions can provide a theory of segregation. In turn, various types of segregation can create persistent intergroup inequalities because of social interactions. The interaction of social interactions with segregation can produce persistent inequality; this is the heart of what I mean by the 'memberships theory of inequality'.

Inter-Group Interactions

The memberships literature has focused less on inter-group interactions, although issues of this type have been of long-standing interest in economics. That being said, many memberships models have implications for understanding inter-group inequality. At one level, this follows trivially from the intra-group effects. For example, social capital models that focus on the emergence of trust norms and reciprocal altruism among members of a community presumably imply differential treatment for outsiders and so implicitly suggest a source for inequality. Bowles and Gintis (2004) refer to this as parochialism; while their primary focus is not on how the formation of strong group ties can lead to inequality, it is a natural consequence of their analysis.

Other forms of inter-group interactions are not passive in the way parochialism effects are. By this, I mean that the effects of parochialism are not directed at outsiders but rather a consequence of the formation of intra-group bonds. The most obvious example of active inter-group interactions is discrimination. While my discussion will focus on race, it applies equally well to other contexts such as gender.

The classic type of discrimination in economic reasoning is taste discrimination, the basic ideas of which are delineated in the classic study by Becker (1971). It is also the form of discrimination that I believe is meant in most public discussions. Taste discrimination refers to situations such as one where employers simply dislike employing blacks and are in principle willing to give up profits in exchange for hiring less able white workers in their place.[8]

Stated this baldly, this form of discrimination runs into an immediate problem as an argument for contemporary significance, namely, its economic sustainability. The standard argument that this type of discrimination cannot be sustained is that firms that practice taste discrimination will, via market competition, lose out to firms that do not. However, one can resurrect a role for taste discrimination if firms who do not discriminate are subject to social sanctions which then lead to profit reduction; Akerlof (1980) develops a formal model of this type and specifically uses discrimination as a motivation for his theoretical analysis. This type of argument, which is common in the evolutionary literature on group selection, presupposes that the costs to enforcing social norms are low, i.e. that it is easy to switch to a firm that discriminates from one that does not. This sort of problem arises in general when one considers the enforcement of social norms, see Kandori (1992) for an example of formal game theoretic analysis of how norm enforcement can arise and Sober and Wilson (1998) for a general discussion of the evolutionary sustainability of behaviours that are individually harmful (as in failing to hire the most qualified) via social enforcement. The point I wish to make here is that taste discrimination may not be eliminated by market forces when social norms are strong.

Nevertheless, I believe that most economists would agree with Loury (2002) that taste discrimination is not in the first rank of factors that explain contemporaneous socio-economic differences between races. One example of why this is so is an important paper by Neal and Johnson (1996) who show that approximately 75 per cent of black/white wage differences in standard wage models can be explained by differences in premarket factors as captured by test scores around age 16. This finding means that educational inequality rather than labour market discrimination is the primary source of contemporary racial inequality in wages. Another reason is that it is very difficult to identify taste-based discrimination. To see why this is so, consider the recent prominent study by Bertrand and Mullainathan (2004), who found that résumés with 'black sounding' names fared more poorly than résumés with 'white sounding' names when mailed to random firms. Inferences of discrimination in studies even this well designed may be subjected to powerful criticism using arguments in Heckman (1998) and Heckman and Siegelman (1993). Generally, such findings cannot be interpreted as discrimination, at least if discrimination is understood as behaviour that is inconsistent with profit maximization. If firms have found that black employees tend to have lower productivity than white ones, when other résumé characteristics are held constant, then one has an example of statistical discrimination, which I discuss below, rather than taste discrimination; this would reconcile the Bertrand and Mullainathan findings with Fryer and Levitt (2004) who did not find any relationship between black names and labour market outcomes, given a set of control variables including family background.

Economists, particularly when theorizing, currently tend to focus on two other types of discrimination. One is known as statistical discrimination and was originally proposed by Arrow (1973) and Phelps (1972). In statistical discrimination models, firms start with prior beliefs that one group, i.e. blacks, are less productive than whites. As a result, they are less willing to hire blacks. Blacks, in turn, find the value of educational investment to be lower than whites, and so invest less. Hence a self-consistent equilibrium emerges in which the prior beliefs of firms are proven to be *ex post* correct, which prevents firms from learning and thereby overcoming their prior beliefs.

The empirical import of statistical discrimination models is unclear, at least for labour markets. Moro (2003) shows that a pure statistical discrimination model can capture some features of the black and white wage distributions, but does not allow for competing sources of wage differences. Further, as documented by Neal (2005), the marginal wage benefit from increases in education has been consistently higher for blacks compared to whites since 1960, which means that the key microeconomic foundation for statistical discrimination models does not hold. Further, Neal's findings suggest that there may be differential costs to skill acquisition that are not picked up using conventional measures. If one allows for differential costs, then it is not clear that statistical discrimination forces are even identified using conventional statistical methods such as wage regressions.

While the empirical salience of statistical discrimination models in labour markets is unclear, there are many contexts where statistical profiling matters. By statistical profiling, I follow Harcourt (2007) and refer to the use of group memberships to draw inferences about individuals. Unlike statistical discrimination, the focus in statistical profiling moves from the question of how prior beliefs can become self-confirming to the question of how group memberships affect inferences about individuals. One example of statistical profiling is racial profiling in traffic stops. The oversampling of black drivers by police who stop drivers in order to search for drugs has received a great deal of attention in the media. What has received far less attention is that, as an empirical matter, the pattern of these stop differentials is consistent with a policing strategy that attempts to maximize the total number of arrests (see Knowles, Persico, and Todd 2001 for the major work of this type and Anwar and Fang 2006 for extension and corroboration in a different context).[9] These types of studies raise the important point that group identities provide information about individuals. There may be fairness issues involved in the use of such information (see Durlauf 2006 for discussion), suggesting another sort of equity/efficiency trade-off associated with group memberships effects.

Statistical discrimination ideas have led to one of the most interesting recent developments in the study of social influences: stigma, which may be thought of as a third form of discrimination. Loury (2002) provides a profound discussion of this concept and is the origin of its recent use to understand racial inequality. I interpret stigma as the ascription of negative attributes to individuals on the basis of group identity. An example of this is a belief in genetic differences in ability between ethnic groups. Stigma generalizes the notion of statistical discrimination in that it moves from cases where adverse beliefs prove to be correct in an equilibrium to cases where adverse beliefs are simply not disproven. Loury's vision of stigma as a source of inequality is summarized by his statement:

> *Discrimination is about how people are treated; stigma is about who, at the deepest cognitive level, they are understood to be*... A diagnosis of *discrimination* yields a search for harmful or malicious actions... But seeing *stigma* as the disease inclines one to look for insidious habits of thought, selected patterns of social intercourse and defective public deliberations... (2002: 167–8)

Stigma may also matter in terms of its direct psychological effects on African Americans. Research by Steele (1992, 1997) and Steele and Aronson (1995) has shown that the performance of African Americans on tests is substantially worse when the tests are identified to the test takers as measuring ability: this phenomenon is known as stereotype threat. The argument made in this work is that the existence of negative stereotypes about black intelligence places psychological pressures on blacks in testing environments. While there has yet to be any translation of the findings on stereotype threat into understanding differences in socio-economic outcomes, it is easy to see they may be very important if they represent psychological costs to educational effort that are experienced by blacks but not by others.

Synthesizing Intra-Group and Inter-Group Externalities

Intra-group and inter-group influences are of course likely to be simultaneously present. While this combination has not generally been incorporated into formal analyses, I believe this is an important next research direction. A case where a synthesis seems important is understanding differences in education attainment between blacks and whites. A number of authors have argued that educational outcomes between black and white students are partially attributable to the lower value put on education by black students. In popular discourse, educational achievement is regarded as 'acting white' by some African Americans and thus creates incentives against academic success. In scholarly work, this type of phenomenon has been specifically invoked to explain why there are persistent educational outcome differences between ethnic groups in places such as Shaker Heights Ohio, where there are good reasons to believe the school system and community have been sensitive to background differences between races and taken a range of efforts to improve black educational performance; see Ogbu (2003) for a wide-ranging analysis.[10] Recent work by Fryer and Torelli (2005) provides specific evidence that academic achievement among African American students is negatively associated with personal popularity.

One explanation of the presence of dysfunctional educational attitudes in a community is that they are simply a manifestation of intra-group social interactions. If the perceived benefit to educational effort is sufficiently sensitive to the effort levels of one's peers, then large differences in efforts will emerge in equilibrium, even after one controls for family specific factors. Why should these feedback effects be strong? An important new literature which provides a deep set of microeconomic foundations for such an abstract explanation and which seems important in contexts such as education concerns the role of identity in decision making. The study of identity in economics was initiated by Akerlof and Kranton (2000); Austen-Smith and Fryer (2005) and Fang and Loury (2004) make important theoretical advances in these ideas and apply them to race. In this work, individuals are conceptualized as choosing (not necessarily consciously) ways of acting and understanding in order to situate themselves psychologically and socially. So, following Fang and Loury, agents choose identities to facilitate how they process past experiences and in Austen-Smith and Fryer they do so to achieve group acceptance.

One lacuna in this work is the absence of a theory as to why certain identities become salient. My conjecture is that they constitute a response to stigma. If the academic abilities and achievements of blacks are denigrated by the majority population, an identity that undervalues education implicitly rejects the significance of the stigma. I would argue that it is no coincidence that a minority group whose intellectual abilities are held in contempt by many in the majority group would develop identities that undervalue such abilities. If so, this would illustrate how inter-group interactions, can produce, via intra-group interactions, strong and persistent forms of inequality.

Taken as a whole, intra- and inter-group influences can have profound effects on inequality, at least in theory. I now consider the question of policy implications. I will focus on intra-group interactions since the evidence here is far more clear and because the policy remedies for inter-group interactions either are straightforward (enforcement of antidiscrimination laws) or are associated with micro-level interventions beyond my expertise (teaching styles) or are qualitatively similar to those that apply to intra-group effects (i.e. involve associational redistribution, which I define below).

3. Public Policy

From the perspective of public policy analysis, memberships theories have normative as well as positive implications.

Normative Issues

One can identify two distinct ways in which memberships theories matter for justifying redistributive government policies. First, memberships theories have implications for strictly egalitarian perspectives on policy. By strictly egalitarian perspectives, I refer to those that directly regard inequality as intrinsically bad, as opposed to perspectives which contain instrumental objections to inequality, i.e. oppose inequality because of its consequences.[11] Intuitively, it is natural to regard the effects of some memberships as unjust. One does not hold a child responsible for the neighbourhood in which he grows up. Hence the effects of a low tax base on school quality, the absence of certain types of role models, and the presence of peers whose behaviours are not conducive to school effort represent factors which are unfair to children in disadvantaged communities and would intuitively call for redistributive policies.

This intuition can be made rigorous. Within political philosophy, one of the key developments in the study of egalitarianism concerns the role of responsibility in evaluating inequality; a wide range of scholars subscribe to what E. S. Anderson (1999) has referred to as luck egalitarianism, the idea that it is those inequalities which occur due to luck rather than to individual choice that are appropriately reversed by government action. Luck in this description is a shorthand for those factors for which a person should not be held responsible;[12] Roemer's (1993) development of a positive theory of redistribution when a policy maker seeks to move society towards greater equality of opportunity is based on this distinction. Childhood residential neighbourhood characteristics are a clear example of the sorts of variables for which a person is not responsible.

A second justification may be derived from what is often called prioritarianism. Prioritarianism essentially represents a defence of the view that society should attempt to improve the status of the badly off, i.e. those who are badly off should receive priority in the allocation of resources. Group memberships can be the mechanism that produces serious personal disadvantage. Notice that one can introduce considerations of responsibility into prioritarian arguments, see Arneson (1999). The basic idea is that the claim of the disadvantaged for an improved situation may depend on the extent to which they are not responsible for their current situation. Thus, to the extent that memberships effects produce significant hardship, prioritarian considerations would argue that these consequences be reversed by policy.

Group influence thus can, for either egalitarian or prioritarian reasons, produce a justification for redistributive policies. The notion that ghettos contain dysfunctional behaviours that are socially reinforced does not represent an effort to 'blame the poor', but rather represents a recognition of the social harms that disadvantaged communities impose on their members. Anderson's (1999) well-known ethnographic work on the 'code of the street', which describes how violent behaviours are reinforced as a defence mechanism, is a good example of these social costs.

From the perspective of normative arguments on redistribution, is there a principled difference between the effects of an ethnic group or residential neighbourhood versus the effects of parents on a child's future socioeconomic prospects? My argument thus far is that group influences can represent the sort of inequality-inducing factor that is beyond an individual's responsibility. This does not imply that social factors are more compelling in redistributing resources than individual-specific ones. What I mean is that while one may care in terms of choice of policy which class of factors matters, it may be irrelevant to the abstract question of whether some policy intervention is justified. If a defence of redistribution relies solely on its reversal of those effects for which one is not responsible, then it is hard to see that the two types of factors differ in their implications. Rawls suggests such an equivalence when, in a famous passage, he writes about

> ... the principle that undeserved inequalities call for redress; and since inequalities of birth and endowment are undeserved, these inequalities are somehow to be compensated for. Thus the principle holds that in order to treat all persons equally, to provide genuine equality of opportunity, society must give more attention to those with fewer native assets and to those born into the less favorable social positions... (1971: 100)

So, one might conclude that memberships effects do not alter the normative basis for redistributive policies in a way different from family-based effects.

However, this equation of social and family influences as equally morally compelling reasons for redistribution is less obvious once one moves beyond egalitarian and prioritarian considerations to more general considerations of what constitutes a good society.[13] In other words, while each embodies important social objectives, neither egalitarianism nor prioritarianism captures all aspects of what I regard as a good society. In particular, these abstract conceptualizations of the requirements of justice ignore the intrinsic value of human relationships. And it is here that I see important qualitative differences between some family-specific and group-specific sources of inequality. Appiah comments

> ... we should start with the assumption that the role parents play in the raising of their children gives them rights, in respect to the shaping of their children's identities, that as a necessary corollary of parental obligations... we believe that children should

be raised primarily in families and that those families should be able to try to induct their children into the mores, identities, and traditions that the adult members take as their own. (2005: 201)

Parental and group influences differ in terms of intent. One does not think of the efforts of a parent to help their children in school in the same way that labour market connections in a community assist the young. To the extent that a parent is attempting to improve his child's prospects, then strict egalitarianism requires violating this form of self-actualization, i.e. requires that these efforts be fully negated by society.

Appiah's argument, in my view, is suggestive of limits to equalization. In other words, while one could imagine justification for tax breaks to poor families who made education related purchases, one does not naturally expect equalization of these expenditures across all families. There is an intrinsic value worth preserving when a parent chooses to spend extra money (or extra time) on his children, even though that entails future inequality. In contrast, it is difficult to see a comparable argument for differences in per pupil school expenditures. The desire of a parent to see his child get ahead is not unworthy and sacrifices that try to achieve this are a natural part of parenting. A policy that completely reverses such investments detracts from the nature of the parent–child relationship as it rules out a domain for giving by the parent and would thereby impinge on the nature of the parent–child relationship.[14] An argument of this type is made by Schoeman:

Even if someone could demonstrate that there were some more efficient and effective institution for governing the interests of children than the traditional family, I would still think that the family would have a strong, though, rebuttable, moral presumption in its favor ... The presumption would seem to imply that the state should not, to the extent possible, make the family and parental responsibility otiose through the provision directly to children of services which parents are in a position to supply.

(1980: 18–19)

The divisions between purposeful family-based inequalities and impersonal group inequalities may not always be clear. But that is relevant only with respect to the concrete determination of the domain for redistribution, not for the abstract claim that they differ. I therefore conclude that there are good reasons to believe that memberships-based sources of inequality are more compelling than some family-based sources in terms of their implications for justifying government interventions to promote equality.

While memberships have powerful normative implications for the justification underlying redistributive policies, the positive implications are far less clear, with respect to the question of policy design. On the one hand, memberships theories of individual outcomes can be used to motivate what I have referred to in Durlauf (1996*b*) as associational redistribution. Associational redistribution refers to the idea that the government can in principle take steps to alter the composition of various public associations in order to redistribute the effects of group memberships. There is nothing new about associational redistribution as a government policy. Affirmative action may be thought of as a set of policies that alter memberships in the student bodies of schools or the workplaces of firms. School busing to achieve racial integration was an earlier policy of this type. And of course, other policies have associational effects. The allocation rules for government scholarships help determine the allocation of students across colleges; similarly the decisions concerning the public finance of education prior to college as well as decisions about the size and locations of schools determine the compositions of student bodies, to name two additional examples.

Policy Design

While the desirability of associational redistribution is in principle suggested by memberships theories, difficulties emerge when one attempts to translate this abstract claim into specific policy recommendations. This is not always the case; certainly the passage and enforcement of anti-discrimination laws was an (intellectually) straightforward response to the sorts of memberships effects that produced black disadvantage in the Jim Crow South. My argument is that those memberships effects which are most likely salient as sources of contemporaneous disadvantage are qualitatively different from taste discrimination and much harder to counter.[15]

The reasons why this translation is problematic are severalfold. First, empirical work on memberships effects is mixed. This means that it is far from clear which sorts of memberships matter for various socio-economic outcomes. To be clear, there are many studies in social science that provide evidence of memberships effects. For phenomena that are directly related to inequality, findings range from crime (Glaeser, Sacerdote, and Scheinkman 1996; Sirakaya 2006), to labour market outcomes (Conley and Topa 2002; Corcoran et al. 1992; Topa 2001; Weinberg, Reagan, and Yankow 2004), to fertility (Crane 1991), to education (Aaronson 1998; Borjas 1995), to the use of public welfare

(Aizer and Currie 2004; Bertrand, Luttmer, and Mullainathan 2000).[16] However, the existence of this large body of work does not mean that the evidence of memberships effects is policy relevant.

As guides to policy, the empirical failings of memberships studies, from the perspective of policy design occur at several levels. First, there is the problem of identification of memberships effects. The basic problems in identifying memberships effects occur at several levels. Whenever group memberships are endogenous, as occurs in cases such as residential neighbourhoods, identification of the group's role must be disentangled from unobserved individual characteristics within the group; formal analysis of this is found in Brock and Durlauf (2001*b*, 2007). To make this concrete, suppose that one observes a correlation between the types of role models present in a community and student achievement. Does this imply a causal relationship? The answer is no. The obvious problem in moving from the correlation to a causal explanation is that the distribution of role models in a community says something about the sorts of parents that are present. If the absence of high achievement role models is associated with relatively unambitious parents, and this lack of ambition cannot be observed, then it is possible that the correlation between role models and outcomes is spurious. In principle, self-selection can be sufficiently strong to produce evidence of memberships effects when none is there. Some evidence of this is developed in Evans, Oates, and Schwab (1992) who showed that instrumental variables estimates, designed to account for the endogeneity of memberships, reversed evidence of a feedback from school characteristics to educational outcomes. To be clear, there is no logical reason why instrumental variables estimates produce much weaker evidence of neighbourhood effects, although intuition suggests this; Rivkin (2001) in fact showed how the opposite could be true in a context quite similar to Evans, Oates, and Schwab.

Even when memberships are exogenous, there may be identification problems due to unobserved group characteristics. Returning to the correlation of role models and student outcomes, the determination of whether this relationship is causal presupposes that the analysis has accounted for other factors that systematically affect student performance outside role models. When these factors are not fully accounted for, then the correlation may be due to their omission. To see how this can happen, suppose that school quality affects student performance. School quality is not observable, at best crude proxies such as per pupil expenditures are available. So long as the part of school quality that is not explained by the proxies systematically varies across communities, i.e. is correlated with the characteristics of role models, then spurious correlations can result. To pursue this example, if better teachers are attracted to schools and able to sort themselves into schools in affluent communities, then the spurious correlation I have described could occur.

Do self-selection and unobserved group characteristics mean that many empirical claims of memberships effects are incorrect? The answer is no. The salience of these confounding factors is itself not known, so the problem is one of identification. Further, there are a number of studies that attempt to control for these problems. I survey these in Durlauf (2004) and conclude that there is some evidence of neighbourhood effects, although the evidence is not strong enough to significantly move one's prior beliefs on the question of their importance.

Other identification problems exist once one considers the question of what sorts of social interactions matter. Manski (1993) was the first to recognize the difficulties that exist in disentangling contextual effects from endogenous effects. Suppose that one wants to measure the relative contributions of role models and peer effects in school performance. Suppose that role models matter. This implies that, even if peers do not matter, there will be a correlation between the behaviour of peers and each individual, because the students in a community are simultaneously exposed to the same peers who are all affected by the same role models. While Brock and Durlauf (2001*a*, 2001*b*, 2007) show that as a formal question of identification, one can generally disentangle contextual and endogenous effects so long as their relationship to individual outcomes is non-linear, this does not mean that in practice, with limited data sets, that distinguishing these effects is easy. In fact, very few empirical papers have attempted to do so. This distinction between the two effects can be quite important in policy evaluations. Specifically, if one wishes to predict the effect of a change in group compositions on the outcomes of individuals, for a wide range of models, this prediction depends on the distinct magnitudes of the effects.[17]

When one steps back from the statistical problems that are present in studies of memberships effects, one can identify other problems that militate against using these studies as guides to policies. One major problem, discussed in Manski (2000) is the absence of any work identifying which groups matter for memberships effects. The empirical literature almost exclusively takes the composition of groups as known. This is a first-order problem for policy analysis. If the groups that have been assumed to generate social interactions are, in fact, not the ones that actually do generate the effects, then one cannot predict the effects of changes in group composition. The reason the initial groups appeared to matter was the correlation of their compositions with the 'true'groups, but this correlation is not invariant to the choice of group.

Another major class of problems concerns the details of statistical models that permit the measurement of memberships effects. The memberships theories I have described, while mathematical, are sufficiently abstract that they leave many aspects of statistical evaluation unexplained. The theories do not specify the appropriate empirical proxies for contextual and endogenous effects. Durlauf (2004) catalogues a vast range of variables which have appeared in empirical microeconomic studies which examine memberships effects in inequality-related contexts. Similarly, different studies employ different dependent variables. Thus, one study such as Crane (1991) examines the percentage of professional and managerial workers on high school drop-out rates in a community whereas another such as Corcoran et al. (1992) studies the predictive effects of the percentage of families on public assistance on future wages. In fact, when one begins to think about individual decisions as made jointly over many behaviours at different points in time, it is not even clear if the various findings on the presence or absence of memberships effects are even logically consistent.

Similar problems exist when one considers the interaction of memberships theories with other candidate determinants of inequality. The various inequality theories are, using a term from Brock and Durlauf (2001*c*), open ended, which means that a given theory, say the effects of role models on behaviour, has no implications for the validity of other theories, such as the role of parental education, sibling behaviour, etc. It is easy to see why the exclusion of relevant alternatives will render statistical analysis problematic. Ginther, Haveman, and Wolfe (2000) find that richer specifications of individual behavioural determinants can eliminate initially strong evidence of group effects.

Taken as a whole, the empirical literature on memberships effects, while providing reasonable support for the scholarly proposition that these perspectives are empirically valid, does not provide sufficiently precise guidance of the nature of the effects or the behaviours they influence to allow one to address questions of either optimal policy design or of policy comparison. Thus, the standard approach of policy analysis in economics, which relies on the specification of a behavioural environment and an objective function for a policy maker, cannot yet be done for policies that promote associational redistribution.

An alternative way to think about memberships and policy is to identify 'simple' forms of associational redistribution and ask about their consequences for inequality. For example, a school district can adopt an assignment rule that randomly assigns all children in a school district to schools and thereby eliminates racial and economic segregation. Or, the relevant housing authority could follow the rule that the location of public housing be distributed across a metropolitan area in a way that is proportional to the distribution of the population. Neither policy is optimal in the sense of solving a well-posed planning problem, but each attempts to promote equality via associational redistribution.

The most suggestive evidence on policy effects is due to the Moving to Opportunity (MTO) demonstration that has been conducted by the Department of Housing and Urban Development.[18] The MTO programme is an ongoing experiment that is being conducted in Baltimore, Chicago, Boston, Los Angeles, and New York City. In each case, families in poor neighbourhoods were invited to participate in the programme. Those families that chose to participate were randomly assigned to one of three groups: a control group, which received no additional benefits, a second group which received housing subsidies whose use was not restricted to certain neighbourhoods, and a third 'treatment' group that received housing subsidies that had to be exercised by moving to low-poverty neighbourhoods. Families in the treatment were obliged to remain in the low-poverty neighbourhoods for one year, after which they could treat the voucher the same way as the unrestricted vouchers. Assistance in locating low-income community housing was provided as well.[19]

Katz, Kling, and Liebman integrate data across the five sites and conclude:

> We find no significant overall effects in this intervention on adult economic self-sufficiency or physical health. Mental health benefits of the voucher offers for adults and for female youth were substantial. Beneficial effects for female youth on education, risky behaviour, and physical health were offset by adverse effects for male youth. (2007: abstract)

This type of evidence has the critical advantage that it allows one to map a policy rule (the housing vouchers) directly into effects on a population. However there are still two limitations in using this evidence to design large-scale anti-poverty policies. First, and well recognized (eg. Goering, Feins, and Richardson 2003: 31), there is a self-selection problem involved in the initial decision to participate in the programme. This means that one cannot extrapolate the benefits of programme participation to the poor population as a whole. Second there is the problem of generalizability. The small scale of the demonstration means that there are no general equilibrium effects.[20] In other words, the movements of families induced by the programme did not affect the compositions of the communities in which they moved or those that they left. In contrast, any large-scale project of this type would necessarily produce these effects. In other words, as discussed in Brock and Durlauf (2001*b*) large-scale movements of the poor into neighbourhoods producing certain types of social influences would necessarily change the composition of these neighbourhoods to a sufficient extent that the effects could be very different from what happens when a small number of families are moved. This is the flip side to the social multipliers described above.

These various problems in mapping evidence of memberships effects into concrete policy proposals should not lead to nihilism about the use of policy to influence group memberships. Rather, I believe they suggest the importance of incremental steps with a recognition that much is still to be learned. One way to think about the problems I have described is in terms of model uncertainty. In many policy contexts, one makes an argument about how the phenomenon of interest is determined, i.e. employs a model, and constructs a policy based on that model. In the case of group memberships, the problems of identification, group membership choice, and general equilibrium versus partial equilibrium effects all constitute forms of model uncertainty. What current empirical research provides is a set of claims that represent statements about memberships effects given a data set and a set of assumptions as to what defines an appropriate model (or narrow space of models). What is needed is the development of empirical evidence that avoids conditioning on ad hoc model assumptions. This need, recognized as early as Leamer's (1978) seminal work is an active topic of current research in macroeconomics (see Brock, Durlauf, and West 2003) for both one approach to dealing with model uncertainty as well as a survey of recent work) and should be applied to memberships contexts, if the ideas of the theory are to become policy relevant.

4. Conclusions

This chapter has attempted to develop three classes of arguments about the relationship between group memberships and inequality. First, from the perspective of current developments in economic theory, group memberships can have profound effects on inequality. These effects extend beyond the cross-section distributions of socio-economic advantage to issues of intergenerational mobility and the emergence of socio-economic segregation. Second, there are important normative implications of this new perspective. In particular, various conceptions of justice suggest that these influences should be countered, if possible and without unacceptable costs, by government policies. The justification for allowing group-based inequalities to be perpetuated further seems weaker than for at least some family-based inequalities. Third, the translation of the abstract justification for government interventions to reverse the effects of group memberships is still problematic. Too little is known about the nature of memberships effects to allow for firm claims about the effects of various interventions to affect group memberships or other policies.

These general considerations find specific resonance in social capital contexts. Putnam (2000), building upon an idea in Gittell and Vidal (1998), draws a distinction between bonding social capital, which strengthens relationships among homogeneous, and bridging social capital, which strengthens relationships among heterogeneous individuals. Social organizations such as professional clubs or bowling leagues, that have been extolled as the repositories of social capital while creating trust and friendship among their members, can just as easily become mechanisms by which labour market information is differentially made available. The same solidarity that emerges from a common church that leads members of a community to look after one another's children can lead to hostility to non-believers and religious minorities. It is easy to see parallels in the bridging and bonding distinction and types of social capital that are equality enhancing versus inequality enhancing. And for both types of social capital, one can readily understand how, whenever some group of a population is socially interconnected, this induces a distinction between 'us' and 'them' that raises issues of potential stigma and the like.

These types of egalitarian considerations illustrate how the common assumption that social capital is a social 'good' may be deeply misleading. Further, the various econometric identification issues that I have discussed for memberships theories apply *a fortiori* to social capital studies. This is so because social capital is one of a range of possible social influences, and so not only must a statistical analysis identify whether any social (i.e. membership) influences matter, but whether the particular mechanism is one that captures what is meant by social capital (cf. Durlauf 2002*b*, for a formal discussion). The lack of consensus on the definition of social capital adds another layer of model uncertainty when one attempts to evaluate empirical evidence. All these factors suggest that we are far from being able to make sensible policy recommendations based on social capital considerations.

Yet, the complexities in understanding memberships and inequality should neither demoralize the researcher nor lead to nihilism for public policy evaluation. Memberships theories still constitute a nascent research programme and so progress is sure to continue. With respect to policy analysis, work such as Durlauf (2006) and Gaus (2006) suggests constructive ways to think about policy choice in the presence of deep uncertainties on the part of the policy maker; these may have use in the social capital context. What should be taken from this chapter is that social capital and other memberships-related phenomena, because of their implications for inequality, should lead to caution on the part of policy makers who wish to manipulate them.

Notes

1. This paper would not have been completed without the help of Dario Castiglione. In addition to providing many helpful comments, he went far beyond the call of duty as an editor by helping with the writing in some sections, and I am deeply grateful. My thinking on these topics has been greatly influenced by conversations with William Brock and Charles Manski. I thank the National Science Foundation and University of Wisconsin for financial support. Ethan Cohen-Cole, Giacomo Rondina, and Hisatoshi Tanaka have provided excellent research assistance.
2. Economic theories of intergenerational mobility are surveyed in Piketty (2000).
3. The substantive ideas on the sociological side of this work are anticipated in Loury (1977).
4. The magnitude of differences in public per pupil expenditures across the United States is documented in Hussar and Sonnenberg (2001).
5. See Durlauf and Fafchamps (2006) for a survey of the causal mechanisms that have been proposed in the social capital literature. For my purposes, it is not important which of these mechanisms is regarded as the best conceptualization of social capital as they are, as I have argued, simply examples of memberships, and specifically, social interaction effects.
6. As discussed in Manski (2000), one reason why memberships-based perspectives have only recently emerged is because of their reliance on newer methodological advances that allowed their instantiation into formal economic models.

My own sense is that the popularity of these models for inequality analyses also stems from the perception that individual-based models of inequality missed important aspects of the persistence of inequality.

7. There is no requirement that reciprocal influences be equivalent.
8. To be clear, this does not mean that taste discrimination is not regarded as a first-order source of historic black–white inequality. Heckman and Donohue (1991) provide a very careful discussion of the evolution of black–white wage inequality over the past sixty years and conclude that while one cannot prove that antidiscrimination laws explained the narrowing of the wage gap after 1964, the failure of alternative explanations to do so strongly implies an important role.
9. The objective of maximizing arrests may not be a sensible one; as argued in Harcourt (2004) and Durlauf (2006), a stop strategy should attempt to minimize the crime rate, which depends not on differentials in crime rates across groups but on the sensitivity of these crime rates to changes in the probability of being caught if a crime is committed. But this is a criticism of current profiling practice and does not address the question of whether race-based stop strategies lead to lower crime rates than race-blind ones. General objections to racial profiling are discussed in Durlauf (2006); see Risse and Zeckhauser (2004) for somewhat different views.
10. Claims of this type have been subject to strong criticism, much of it, in my opinion, politically motivated by the belief that this is a form of blaming blacks for current inequalities. My reading of this debate suggests that the evidence developed by Ogbu (2003) is persuasive. I will argue below that the 'blaming the poor' concern is unwarranted.
11. I will not address criticisms of egalitarianism that argue that to treat inequality as a direct bad leads to violations of the Pareto principle, i.e. that one must be willing, for some circumstances, to accept a reduction of the welfare of each member of society in exchange for a decrease in inequality; see Kaplow and Shavell (2001) for a clean version of this argument. Some reasons why I reject this and other criticisms of non-consequentialist views of justice may be found in Durlauf (2006) which draws on a powerful critique of utilitiarianism by Hahn (1982).
12. Thus a gambler who risks all of his wealth on a bet and loses is responsible for his loss even though it was directly caused by luck. In contrast, an individual who loses all of his wealth due to a natural disaster for which all reasonable precautions have been taken, e.g. a lightning strike, is the victim of what is sometimes called 'brute' luck and is not responsible in the same way.
13. While concerns over the role of emotional relationships in describing ethical conduct have existed throughout the history of philosophy (see Aristotle, *Nichomachean Ethics*, Book VIII, section ix for a classic example and Velleman 1999 for a recent one), relatively little attention seems to have been paid in the context of analyses of ethics and equality.

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14. Issues of financial investment are more straightforward to discuss than other types of influences. Consider parental investments of time, e.g. reading to children rather than watching television or the teaching of certain values concerning effort, integrity in dealings, and the like. The case that such activities are an intrinsic good is especially strong. But efforts to reverse the effects of these activities, even if feasible, seem less likely to detract from the activities themselves than would occur for the expenditure case. Put differently, the disincentives for private investments of time may differ from the disincentives for private investments of money in response to a given redistributive policy. Further, if the issue is that some communities inculcate attitudes and behaviours that are less conducive to labour market success than others, there arises an issue of respect for other cultures that may require consideration. I believe the family/group distinction still applies here, but acknowledge it may require more elaborate argumentation.
15. This in no way disparages the great difficulties faced by the civil rights movement to end legal discrimination nor does it mean the process by which the removal of public and private forms of segregation led to increases in socioeconomic equality was simple or straightforward. My point is simply that at least part of the abstract question of what policies to implement was easy to identify.
16. Other studies provide stronger evidence of social interactions, but examine phenomena that are sufficiently far away from those where policy makers are concerned that it is unclear that they do more than help reinforce the general view that memberships matter. For example, the famous Robbers Cave experiment (Sherif et al. 1961) in which teenage boys were taken to a summer camp in Robbers Cave National Park, organized into arbitrary groups from which various forms of stereotyping and group hostility emerged, make evident how group identities can affect behaviours, and so is of enormous importance in the assessment of the empirical significance of memberships theories. It is far from clear that these types of findings can say anything more if the goal is to evaluate specific policies, e.g. classroom tracking in schools, in which the interactions are delimited in time and individual actions are directed by a teacher. Aronson (1999) provides an enjoyable survey of social psychology findings that at a qualitative level empirically buttress the ideas underlying memberships theories.
17. There are cases where the predicted effects of compositional changes do not require separate identification of the different types of memberships effects, but for our purposes what matters is that these cases are not general as they typically require the various effects to operate additively. See Durlauf (2004) for discussion.
18. An earlier programme of this type occurred in Chicago and is known as the Gautreaux programme. In response to a lawsuit against the Chicago Housing Authority, a number of families in public housing projects in Chicago were moved to other locations in the city while other families were moved to

various suburbs outside city lines. Members of those families who moved to suburbs exhibited better educational and labour market outcomes than those who remained. See Rosenbaum (1995) and Rosenbaum and Popkin (1991) for a description of findings concerning families in the Gautreaux Programme and Durlauf (2004) for a summary of the reasons why the evidence from the programme is not ideal in terms of evaluating memberships effects. These limitations do not detract from the scholarly importance of the research on Gautreaux; part of the motivation of the MTO programme was to explore the implications of the Gautreaux findings, exploiting the opportunity to design the programme to address some of the limitations that existed in the original data.

19. This description is taken from Goering (1999). See Goering and Feins (2003) for a survey of findings for the various cities in the demonstration.
20. See Brock and Durlauf (2001*a*) for additional discussion of this issue. Sobel (2006) provides a careful formal discussion of generalizability of MTO from the perspective of the assumptions implicit in the analysis of treatment effects.

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CHAPTER 22

SOCIAL CAPITAL AND THE CAPABILITY APPROACH

FLAVIO COMIM[1]

1. Introduction

Few concepts have achieved such prominence in the social sciences in recent years as those of social capital and capability. Both notions seem to unearth perspectives that are valuable for academics and practitioners to conceptualize important features of the social world. For instance, Dasgupta and Serageldin have claimed that,

> It is difficult to think of an academic notion that has entered the common vocabulary of social discourse more quickly than the idea of social capital. Not only do academic journals devote special issues to discuss the concept, journalists make frequent references to it and politicians pay regular homage to it. (2000: xx)

On the same lines, Durlauf and Fafchamps (2004: 1) emphasize that 'Social capital represents one of the most powerful and popular metaphors in current social science research.' More recently, Halpern (2005: 1) has noted how for 'some of the most outstanding scholars in the world today, social capital is the most important and exciting concept to emerge out of the social sciences in fifty years'. Interestingly enough, the influence of the Capability Approach (CA) on the social sciences has received similar (although less effusive) positive reactions, such as the comments of Pressman and Summerfield, who argue that 'the capabilities approach leads to fundamental changes within the field of economic development. It has helped change the development paradigm from promoting economic growth to promoting human well-being' (2000: 98). Gasper also remarks how work on capabilities

> has been widely accessible and adopted, it has led to much empirical work, and it has had significant policy impact. CA has been central to the Human Development Reports series (HDRs) launched for UNDP by Sen's close associate, the late Mahbub ul Haq, and has subsequently influenced policy at the World Bank during the Wolfensohn era. (2002: 435)

It could also be noted that both concepts received acclaim at approximately the same time (from the mid-1990s), stimulating an interdisciplinary understanding of social phenomena going beyond the limits imposed by the disciplines of economics, sociology, education, psychology, and political science, among others. When looking at both approaches, a number of normative issues emerge, which illuminate how social capital relates to questions of participation, development, and social justice.

The literature of social capital and that of the capability approach share some common features. These comprise: (*a*) an interest in the links between economic and social dimensions; (*b*) an interest in public policy for promoting well-being; (*c*) relevance for tackling poverty and inequality problems;[2] and (*d*) flexibility for a wide range of other applications. The conceptual structures put forward by social capital and the capability approach reshaped their respective fields of knowledge (social policy and normative analysis of well-being) and generated an unprecedented amount of interest in academic and public circles. However, they were not free of criticism. Whereas social capital has been criticized by the 'economics-ization' of the social realm (e.g. Fine 2001), the capability approach has been attacked for being normatively individualistic (e.g. Gore 1997). Potential synergies lie underneath a conceptual integration of these two concepts, suggesting a less instrumental role for social capital and a less individualist reading of capabilities.

As the debate in the two fields of social capital and capabilities is multifaceted, this chapter mainly focuses on the contributions to the literature of the two leading researchers in the respective fields, namely, Robert Putnam and Amartya Sen. As Fine (2001: 18) has suggested, 'Putnam has become the crown prince of social capital'. Amartya Sen, in his turn, originally introduced and developed the Capability Approach (1980, 1985, 1992, 1999) and the large majority of papers in the literature revolve around his work.

In spite of strong similarities over policy concerns and practical grounds between the literature in the two fields in tackling, it must be acknowledged that whereas Putnam's wide objective is to investigate how social networks and voluntary associations develop and result in economic prosperity, Sen's broad concern is with the evaluation and assessment of social arrangements. With such differences in mind, this chapter aims to compare and contrast the uses made of the two concepts, so as to show the limitations and gaps between the approaches of Putnam and Sen, but also their possible complementarity. The final part of the chapter introduces the notion of *social capability* as a way both of describing the institutional and ethical concerns expressed by the two concepts, and of overcoming some of their limits.

2. Putnam and the Normative Foundations of Social Capital

The concepts of social capital and capability belong to distinct theoretical lineages. 'Social capital' looks at the significance of communitarian ties to economic prosperity, and is largely a product of intellectual work originating in the fields of sociology and political science. The idea of 'capability', on its part, has emerged within the context of Rawlsian liberalism, and is the product of intellectual work from the fields of moral philosophy and economics. There is enough diversity in the characterization of these concepts (especially in the social capital literature) to blur the above distinction. However, it is possible to note how the conceptual framework (theoretical categories) and tacit postulates used by the main perspectives on social capital (see Woolcock and Narayan 2000) differ from the ones used by the main contributors to the capability approach. While the prime categories of social capital are built around, for instance, the notions of social networks, cooperation, social trust, community life, and density of associations, those of the capability approach are elaborated from the notions of human freedom, individual agency, individual choice, individual responsibility and functionings, and capabilities. Thus, taken at their face value (based on the nature of the categories they employ) it seems that these concepts are founded on completely *distinct formal principles*, and that any attempt to integrate them would face the contradiction of having individuals *and* communities as the main unit of analysis.[3]

Social capital brings into economics an important feature of social and political science:[4] the feature of actors as socialized beings, whose behaviour is not merely governed by their self-interest but by norms, institutions, and social bonds among individuals. Indeed, this is perhaps the main reason for the prominence of the concept of social capital in the development literature. This feature of social capital was emphasized by Coleman (1988, 1990)—the main theoretical source of Putnam's work—who proposed an investigation into the way in which social organization affects the functioning of economic activity. As he observes (1988: S95), 'The conception of social capital as a resource for action is one way of introducing social structure into the rational action paradigm.'[5] In its simplest terms, the notion of 'social' refers, as Coleman (1988: S100-1) puts it, to 'relations among persons'. The notion of 'capital' presupposes that relations among persons constitute a form of *resource* with economic consequence. This intrinsic vagueness in the definition has encouraged authors to include all sorts of relations among persons in the definition of social capital.

Acknowledging the origin of the term in Coleman's work, Putnam refers to social capital as those 'features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions' (1993: 167). Ultimately, what seems to matter in his definition is not merely the role of trust, norms, and networks in explaining economic performance, but rather, the character of civic life, that is, the patterns of civic involvement and social solidarity, and its economic implications. Do citizens actively participate in public affairs? Is a community bound by horizontal relations of reciprocity and cooperation, or by vertical relations of authority and dependency? More recently, Putnam (2000) seems to focus his definition of social capital on the existence of 'networks of reciprocity' or 'networks of social connection' that produce norms of reciprocity and trustworthiness among individuals. As he summarizes it (2000: 171), 'Social capital is about networks'. By developing this concept, Putnam shows how people's motivations and choices are not simply triggered by their individual circumstances, but also by their social insertion and involvement in community life. He is also reacting to Arrow's and Solow's (both in Dasgupta and Serageldin 2000) critiques of social capital for not presenting 'capital properties',[6] as discussed below. By focusing on 'networks', Putnam frees himself from justifying the lack of 'capital properties' in some constituents of social capital, such as 'trust'.

According to Coleman (1988), in order to qualify as social capital, social networks need not only to facilitate economic performance but also to do the following:

(*a*) be subject to closure, because the closure of the social structure is important to warrant trustworthiness and effectiveness to norms and expectations;
(*b*) be of the kind of multiplex relations, such that resources of one relationship can be appropriated for use in others. This would imply, as Ostrom (2000: 174) has observed, that investments in 'social capital may be developed as a by-product of other activities as well as purposely';
(*c*) have public goods properties, such that they will benefit all those individuals that are part of such structure independently of their participation.

From a social capital perspective, what can or cannot be achieved by a society depends on the properties of the social (or collective) structure within which individuals exercise their choices. What can or cannot be achieved is independent of *individual* attributes or abilities. Indeed, it is not relevant to the concept of social capital if a particular individual can or cannot participate in community activities. What is relevant, however, is the existence of *system-level behaviour* (Coleman 1990) that is, the existence of *relations*, such as trust, reciprocity, and social integration, that cannot be achieved either at an individual level, or be derived from a characterization of individuals, or be reduced to it. It emphasizes the factors of interdependence behind collective action and externality problems. It is important to note that social capital elements should not be seen as external to the characterization of the individuals, as if they were exogenous constraints, but rather as their constitutive elements. For instance, trust is a constitutive property of a relationship that cannot be reduced to any of the individuals holding it. Trust is based on expectations arising from an *interconnectedness* that is unobservable a priori.

Much has been said about social capital not having the characteristics of (physical) capital. For instance, Solow (in Dasgupta and Serageldin 2000: 6) has claimed that social capital 'is a bad analogy with the concept of capital'. Capital, he argues, 'stands for a stock of produced or natural factors of production that can be expected to yield productive services for some time' (2000: 6), and he cannot see how shared attitudes and behaviour could provide earnings or a rate of return with economic sense. Solow's critique of the concept of social capital is due not only to its measurability problems, but mainly to its lack of correspondence with the intuitive definition of capital in economics. Similarly, Arrow (in Dasgupta and Serageldin 2000) argues that a defining characteristic of social networks is that they are constituted for social reasons with no direct relation to their economic value to the participants. However, he goes further than Solow when stating 'I would urge abandonment of the metaphor of capital and the term "social capital"' (Arrow, in Dasgupta and Serageldin, 2000: 4). According to Arrow, in order to qualify as 'capital', a factor of production must involve (*a*) extension in time; (*b*) deliberate sacrifice for future benefit; and (*c*) alienability. He argues that the concept of social capital—which supports the view that economic benefits come from unintended consequences of social networks—fails to fulfil criterion (*b*), and for this reason cannot qualify as 'capital' (for further discussion on the differences between social and physical capital see Ostrom 2000).[7]

Behind these critiques of the notion of 'capital', there is, in social capital, a sociological dispute between economists and social scientists over the use of capital as 'a principle of action' in social theorizing. This has, hitherto, largely been ignored by social capital researchers. A remarkable characteristic is the *instrumentalization* of social relations that can be seen in some discussions on social capital. For instance, Putnam (2000: 19) emphasizes that 'social contacts affect the productivity of individuals and groups' and that social capital was created to 'call attention to the ways in which our lives are made more productive by social ties'. Similarly, Putnam (1993), in his discussion on 'the Italian regional experiment', examines how institutional performance (instrumentally) depends on institutional design, organizational determinants, and socio-economic and socio-cultural factors. In particular, he puts emphasis on the character of civic life, or what he calls 'the civic community' and its influence on institutional performance. The ideal of civic virtues, marked by interest in public issues and active participation in public affairs, is at the core of Putnam's idea of civic engagement and civic community. He takes Tocqueville's comments on *Democracy in America* as the building block of his *theory of associations*. He stresses the role of norms and values of the civic community and the (instrumental) consequences of civic associations on individuals and on the wider polity. As he puts it (1993: 89–90):

> Internally, associations instil in their members habits of cooperation, solidarity, and public-spiritedness. Tocqueville observed that 'feelings and ideas are renewed, the heart enlarged, and the understanding developed only by the reciprocal action of men one upon another'. . . . Participation in civic organizations inculcates skills of cooperation as well as a sense of shared responsibility for collective endeavours.

Two different arguments are being made here. The first is that individuals' acts could be partially explained by the habits and norms prevalent in the communities in which they live. The second is that these habits and norms are also responsible for the creation of values and virtues that individuals are expected to hold as members of these communities.

In operational terms, Putnam (1993) defines 'the civic community' by the density of local, cultural, and recreational associations. He clearly gives the impression that 'associations' is all that matters. He seems to overemphasize the importance of all sorts of associations as a determinant of the nature of public life at the expense of other factors that facilitate coordination and cooperation in society. Many contributions, such as those of Levi (1996), Foley and Edwards (1996), and Szreter (2000), have called attention to remaining 'omissions' in Putnam's work concerning the role of the state, political organizations, government, and culture. These 'omissions' can be seen as opportunities for enlargement of the scope of the social capital theory.

Within this scope, it could be argued that another remarkable 'omission' in Putnam's work appears to concern the role of justice and rights as foundations of social capital. Law-abidingness appears in Putnam's analysis as a direct and straightforward result of civic behaviour. It does not enter into his analysis as a causal or foundational element. However, it could be argued that issues related to justice are at the very root of the foundations of society and of any theory of associations among individuals. To a certain extent, this 'omission' is an *internal* limitation of Putnam's emphasis on associations as the main engine behind the constitution and development of civic communities. It could be contrasted with other 'omissions' (e.g. the role of state) that are *external* to the workings of civic communities. It might, therefore, be suggested that justice is an intrinsic issue in the definition of Putnam's theory of associations, and as such should not be ignored.

Justice, as put by Adam Smith in his *Theory of Moral Sentiments* (1976 [1759]), 'is the main pillar that upholds the whole edifice' [of society]. More recently, Rawls (1971: 476) has stated that, 'without a common or overlapping sense of justice civic friendship cannot exist' and further that, 'in the absence of a certain measure of agreement on what is just and unjust, it is clearly more difficult for individuals to coordinate their plans efficiently in order to insure that mutually beneficial arrangements are maintained. Distrust and resentment corrode the ties of civility' (1971: 6).

Indeed, social cooperation appears to depend on a division of fundamental rights, duties, and advantages in society. Or, as Rawls puts it, 'a conception of justice is to be the public basis of the terms of social cooperation' (1971: 142). The morality of association, which seems to be the main principle used by Putnam in the formulation of his theory of associations, is nothing but a constitutive part of a wider concept of morality which involves, among other elements, what Rawls calls 'the morality of principles', where there is a common allegiance to justice and rights. Therefore, it might be argued that the foundation of Putnam's notion of civic community cannot be claimed without a previous discussion of the conception of justice required for social cooperation.

But this 'omission' in Putnam's work appears to be just the tip of the iceberg. Putnam's lack of emphasis on the public sense of justice as *a* basis for civic friendship seems to be a sign of a narrow normative approach to the evaluation of social arrangements. Whereas his normative analysis is exclusively focused on the criteria of responsiveness and efficiency (which we could call a *consequentialist* ethics—for more on that see Sen 1999: chapter 3), important normative considerations related to justice and equality remain ignored by the concept of social capital that he puts forward. His concept of social capital does not seem to provide a particularly adequate context in which to investigate, for instance, the problem of the 'disorganising effects' of economic inequality or prevalent injustice in civil society. To a certain extent, the instrumental nature of social capital given by the use of 'capital' as 'a principle of action' does not fit well with the non-instrumental characteristic of a concept of justice based on rights. For instance, how could we assess a social capital arrangement that is conducive to economic growth while undermining the rights of the poorest people in society? Putnam's normative foundation, based on an assessment of consequences, does not seem broad enough to include this last kind of evidence. It will probably conclude that on average, society's well-being has improved. Alternatively, how could we assess a social capital arrangement that increases literacy levels but leaves behind girls (and their rights)? With a wider information basis, on the lines proposed by Sen

(1999), distributional issues are at the forefront of the normative analysis. The question at stake here is whether, in assessing social capital constituents, anything other than consequences should count in a meaningful way.[8]

In other words, given that the focus of social capital is on the instrumental and consequentialist role of communities and associations, it might prove difficult to address normative or ethical issues that are foundational to and constitutive of social arrangements. Thus an expansion of the normative basis used by Putnam seems to be an important step in broadening the concept of social capital, by allowing other types of information to take part in the assessment of interpersonal networks. One might wonder to what extent the concept of 'capital' constrains a broader understanding of the social relations that the concept purports to analyse. Perhaps, for reasons other than those put forward by Arrow and Solow, and for this matter, Dasgupta (all in Dasgupta and Serageldin 2000), social capital should not be seen as a form of 'capital' but as something else, broader, that could include not simply the instrumental aspects of social relations, but also the constitutive principles behind the existence of these relations, such as principles of justice. It must be noted that the idea of broadening the normative instrumental views (approximated by utilitarian ethics) held by social scientists is indeed at the core of Amartya Sen's approach, which is centred on the notion of capabilities. In this respect, looking at capabilities may be a promising way of addressing the normative limitations of social capital.

3. Sen and the Problem of Ethical Individualism

Sen's capability approach (in Sen 1980, 1985, 1992, 1999) is a framework for evaluating and assessing social arrangements. It is not meant to be a substantive theory of these issues. Its main contribution consists in broadening the *informational space* (the information needed to make evaluative judgements) of other ethical approaches, by defining as units of evaluation, not utilities or monetary values, but *functionings* (doings and beings) and *capabilities* (sets of functionings). The ethics behind the capability approach requires the identification and weighting of valuable functionings and capabilities. Many functionings are essential and important for a 'good life', whereas others can be trivial and valueless. The elaboration of a broader informational space for evaluating social arrangements is not the only important element in Sen's normative approach. He argues that a person's *freedom* to live the way they would like has intrinsic value and is therefore constitutive of a person's being. This means that not only are achieved functionings valuable, but so are individuals' capabilities of choosing and discriminating among possible livings. An emphasis on freedom or capability reflects, according to Sen, the *agency aspect* of a person.

Sen's suggestion of broadening the informational space needed for properly assessing social arrangements, may offer a way of addressing what in the previous section was described as the normative limitation of Putnam's social capital concept, due to its overemphasis on the instrumental nature of social relations. But, before exploring this argument, something more must be said about Sen's capability concept, particularly with regard with the tension between its individualist nature and its application to social and community contexts, an issue of some importance when we come to compare and contrast capabilities and social capital.

It has been pointed out, by both sympathizers and critics, that the normative, individualistic ethics of the capability approach is one of its main limitations.[9] Carmen (2000: 1023) notes that 'capabilities represent a concept relatively closer to an individualistic mindset'. This means, as Cameron (2000: 1038) puts it, that 'the ultimate analytical concern is with the vulnerable atomistic household'. It has also been observed by Gore (1997: 243) that 'The informational basis of the capability approach thus requires that judgements about the goodness of states of affairs are based exclusively on properties of individuals'. According to Gore, there are many different senses from which the capability approach could be considered individualistic (1997: 243):

> It does not see individuals atomistically, and it does not rely wholly on individual preferences to judge states of affairs. But the goodness or badness of social arrangements or states of affairs is evaluated on the basis of what is good or bad *for* individual well-being and freedom and is also reduced to the good *of* those individuals.

This should not, however, come as a surprise. Sen himself acknowledges at the beginning of his book *Development as Freedom* that (1999: 18), 'The analysis of development presented in this book treats the freedoms of *individuals* as the basic building blocks' (emphasis added) and later that (1999: 117), 'the information focus of this work has been on *individual* freedoms' (emphasis added). Concern with the individual is certainly important and should not be underemphasized. Yet, it seems that a natural extension of Sen's capability approach would involve a broadening of the informational space by the inclusion of other valuable elements that transcend individual functionings and capabilities. Indeed, Gasper (2000: 997) suggests that 'a broader development ethic would require more adequate pictures of "culture" and "the individual" ' than those provided by the capability approach. Similarly, Alkire and Black (1997: 276) also put forward the view that 'the task is how to move from principles derived for individual morality to procedures by which complex development decisions are made'.

A different picture is provided by Robeyns (2005, 2000), who disapproves of the arguments that qualify the capability approach as 'too individualistic' (although she does not refer to any criticism in particular). She suggests that critics are unable to appreciate three different senses of individualism, namely, the ethical, the methodological, and the ontological. As she puts it (2000: 17), 'a commitment to ethical individualism is not incompatible with a personal ontology that recognises the connections between people, their social relations, and their social embedment'. According to Robeyns, the capability approach's ethical individualism allows many different roles for social and environmental factors. Her conclusion is that the capability approach embraces ethical, but not methodological or ontological, individualism. Thus (2005: 106) 'Once the analytical distinction between ethical versus ontological and explanatory individualism is clarified, virtually all critics of individualism accept that ethical individualism is a worthwhile endeavour.' It is difficult to see the relevance of Robeyns's support for the ethical individualist nature of the capability approach, since she does not refer to any concrete criticism. The criticisms quoted above by Carmen, Cameron, and Gore (dates needed) seem to address precisely the problem of ethical individualism, referred to as unproblematic by Robeyns. Her reasoning is based on Pogge's (2002) argument that normative individualism is widely accepted, but it should also take into account his remark (2002: 167) that 'neither Sen nor Nussbaum have so far shown that the capability approach can produce a public criterion of social justice that would be a viable competitor to the more prominent resourcist view'. It seems that on its own a commitment to ethical individualism might not have lived up to its promises. One might wonder whether ignoring the intrinsic value of social structures has something to do with this limitation.

It is not that social structures do not matter for the capability approach. They do, but only instrumentally. Social structures serve either as constraints or instruments to the individuals' evaluative space. As such, they are exogenous to individuals. Indeed, Robeyns (2000: 18) argues that it is, 'impossible to speak of the capability of a community'. Functionings are therefore (methodologically and ethically) solipsistic in the sense that there are no significant interrelations among individuals' functionings that would have value in themselves (intrinsic value). It seems that most social capital elements, such as trust, norms, and cooperation, which cannot be reduced to individuals' properties, cannot be assessed from a capability approach perspective. Moreover, communities in which democratic and participatory decision-making mechanisms are in place cannot be appreciated for their system-level intrinsic qualities, but have to be subject to a reductionist exercise of decomposing their benefits in terms of individuals' well-being and agency. The process of the social construction of capabilities passes largely unappreciated from this perspective, because, from an ethical, individualist perspective, no constitutive value can be attached to it.

The dichotomy between the individual and the social is much less clear in Sen's own work. As Douglas and Ney note, on the capability approach, 'the individual is nominally to the fore and the rest of the society to the rear. But only nominally, for the measures are designed to assess the institutional support for the individual' (1998: 72). It could be argued, prima facie, that there is a tension in Sen's capability approach between its formalization as an ethical liberal theory and its use as a developmental normative framework. Sen makes wide use of social features that are only instrumentally relevant for value judgements about individuals' well-being.[10] However, it seems that Sen (1999) extends the scope of the evaluative framework of the capabilities approach to include constitutive social features of intrinsic value, such as democracy, trust, and 'social attitudes about sharing'. For instance, when discussing the importance of democracy, he seems to attribute intrinsic value to democracy and political freedom. As he puts it, 'we have reason to value liberty and freedom of expression and action in our lives, and it is not unreasonable for human beings—the social creatures that we are—to value unrestrained participation in political and social activities' (1999: 152).

Perhaps, more explicitly, when talking about the achievements of Indian democracy, he argues that, 'democracy is not only a *blessing in itself*, but can also be the most important means to pursue public ends' (2005: 194, emphasis added). It might be difficult to characterize participation and democracy only in terms of their impacts on individuals, if democracy is also 'a blessing in itself'. What happens if democracy and political freedom have a negative impact on people's lives? Shall we discard them? On the other hand, if they are intrinsically important, independently of their consequences on the capabilities of individuals, they should be incorporated into the informational space of the capability approach. In other words, when talking about existing institutions or political arrangements, system-level properties seem to matter to Sen from an evaluative perspective. This suggests that ethical individualism, although very important for analysing inequality issues among genders and classes, etc., might not be enough to appreciate the full importance of democracy and political freedom to the lives of individuals.

As an illustration, it is useful to acknowledge that more recently Sen argues how the Indian 'argumentative tradition, if used with deliberation and commitment, can also be extremely important in resisting social inequalities and in removing poverty and deprivation' (2005: xiii).[11] The richness of the Indian tradition of public reasoning, as qualified by Sen, consists of inclusiveness, pluralist toleration, interactive reasoning, multiculturalism, democracy, reflection, dialogue, respect for science, and public discussion. Moreover, he states (2005: 14), that 'The role of the argumentative tradition of India applies not merely to the public expression of values, but also to the interactive formation of values'. If we follow an ethical individualist perspective, the value of argumentative tradition should be assessed only in terms of its direct impact on individuals' lives. However, can a 'tradition' be properly assessed only in terms of individuals?[12] Leaving the impact on individuals' lives out of the picture would certainly be a mistake, but ignoring the intrinsic value of widely acknowledged social structures would seem to leave us with an incomplete analysis.

It is understandable why Sen,[13] following Rabindranath Tagore[14] and others, sees religious and communal identities as pernicious to democratic virtues, and also how attempts to introduce social capital elements into Sen's analysis might not be welcome by him. Sen's commitment to the role of deliberation and reasoning as the main pillars of a good society does not sit easily with an appreciation of communal categories of analysis. Communal values and identities have been behind sectarian politics all over the world, fostering violence and divisive behaviour among different groups.[15] When people mechanically follow their traditions or identities, there is little scope either for open debate or for exercising powers of deliberation.[16] Furthermore, the attribution of particular values that might apply to groups of people would imply a separation of humanity into different categories. It is for this reason that a focus on people's individualities allows Sen a way of encompassing the whole of humanity, avoiding the narrow dilemmas imposed by the authority of social categories (such as religion or ideology) which confine people to their communal modes of thought and behaviour.

For Sen, 'it is possible to argue that the way a person is to be categorised must be, ultimately, for him or her to determine, rather than everyone being forced into a unique and pre-selected classification that ignores other principles of grouping' (2005: 55). For this reason, he questions Rawls's argument that a 'public framework of thought' would have difficulties in going beyond the borders of a polity; as much as he acknowledges that 'judgements of justice cannot be entirely private affairs—unfathomable to others—and the Rawlsian invoking of a "public framework of thought", which does not in itself demand a "contract", is a critically important move' (2002: 456); while he also stresses that 'there is no particular reason to presume that interactive communication and public engagement can be sought only within such boundaries [country or polity] (or within the confines of those who can be seen as "one people")' (2002: 457).

The question at stake here is not about the *existence* of communal or social structures, as properly pointed out by Robeyns, but rather about the *role* attributed to them in assessing people's advantages. Should we see them only as instruments (not intrinsically valuable) for normative assessments? Or rather, shall we also count them as constitutively important? Why should we discard, for instance, trustworthy environments as important in themselves, when assessing the impact of a social policy? How can we avoid methodological individualism under this circumstance? At closer scrutiny, it seems that capabilities are a 'multi-level concept'. That is, they are important at more than one level of aggregation, but the interaction among distinct levels might produce different results, which is an issue to be addressed later on.

Crucial development problems seem to depend on the assessment of unjust and unfair social structures, such as the international system of trade and transfers, international regulations of property rights, and international financial markets, all of which end up benefiting richer countries in international commercial disputes, and foreign debt payment arrangements, for example. Should these structures be assessed only in terms of their impact on individuals' capabilities; or are they not intrinsically good or bad, fair or unfair in themselves? Should not structural, system-level properties, be assessed according to their intrinsic properties? Some of these questions are important for assessing the capability approach, but also for relating it to the concept of social capital, which is the question to which we shall now turn.

4. Possible Synergies

From our discussion of the Putnam and Sen approaches, there appear to be a number of important differences between the concepts of social capital and capability, in terms of their emerging intellectual contexts, of the questions on which they tend to focus, of their methodological predilections and levels of analysis, and significantly of their normative scope or scientific neutrality.

Despite such differences, however, there are important areas of intersection, which cannot be ignored. These include the attention that they both give to the links between the economic and the social domains, and their attempts to integrate the demands of efficiency and equality in their claims. But these areas of intersection do not appear to be very significant. A more promising avenue of investigation lies in examining the possible 'complementary' aspects of their approaches. Indeed, if the characterization of their approaches presented above is correct, there is not only room for fruitful exchange between the two literatures, but also compelling reasons for a complementary reading of the two concepts.

The possibility of exploring potential synergies arises firstly from the strong emphasis given by Sen's capability approach to the enlargement of normative foundations of economic analysis. This enlargement seems a priori beneficial to the work on social capital, allowing an exploration of the impact of social policy not only in terms of economic advantages or their general consequences, but also in terms of functionings and capabilities. Secondly, Putnam's focus on social capital categories can provide a multi-level structure of analysis that can be helpful for handling social structures in using the capability approach. In what follows, such a complementary reading of capabilities and social capital is developed into the more synchretic idea of 'social capabilities'.

Capital v. Capabilities

Although Putnam does not seem to be interested in formalizing anything similar to the notion of functionings in his analysis, his definition of civic community involves a description of 'beings and doings' of communities, that are, actually, functionings. There is a tension here between Putnam's measurement needs, which force him into dismissing 'outcomes' to the benefit of 'outputs', and his conceptual basis, which relates institutional performance on 'civic engagement' and the character of citizens. More importantly, the existence of social capital, as discussed by Putnam, does not imply mechanically the 'achievement' of economic growth. Perhaps it could best be seen as a *freedom* (or a capability) that a certain polity or civic community has to achieve the real opportunity of growth. When 'social' produces 'capital', utilitarian ethics is the only guide. Alternatively, when 'social' produces 'capabilities', a wider ethics can be explored, based on multidimensional views of well-being and agency. Paradoxically, Arrow's and Solow's objections could then be respected, not only by dropping the expression 'capital' from social capital, but by referring to the potential freedom or capabilities that may arise from civic associations. Because social networks are formed for social reasons not directly related to any economic benefit to their participants, no one can 'invest' in social capital as if it were 'physical' capital. In addition, there is no reason why social capital arrangements should be assessed only in terms of their consequences. The instrumental nature of social capital is actually a limitation to this concept that could be overcome by the introduction of a wider, normative, perspective given by the notion of capabilities. Indeed, social capital seems to say more about the general capability that distinct civic communities have to achieve development (or growth, if one prefers) than about a stock of social networks that must, deterministically, produce economic benefits to their participants. But why not express the impacts of social capital all in terms of consequences, as suggested by Putnam? An exclusive emphasis on consequences would invite us to disregard information that could be important in assessing state of affairs and people's advantages, such as the following:

- Exclusion of 'liberty and equality' in ranking social states (Sen 1970, 1980): focus on consequences, understood as realizations of states, might ignore potential future states (liberty) and distributive concerns (this happens regularly when consequences are seen in terms of averages among individuals).
- Exclusion of 'a moral sense of social responsibility' and 'obligations' (Sen 1973, 1985): emphasis on consequences might ignore the trade-offs between doing what is best and doing what one feels obliged or responsible to do. There is no logical necessity that they should converge.
- Exclusion of 'non-choice sources of information', e.g. 'commitment' (Sen 1977*a*): sometimes acting without having choice, because individuals or communities are committed to achieving something different, and cannot sit easily with an assessment of consequences if they diverge. For instance, honouring a public commitment to conserve an environmental

area, or keeping a state of trust between policy makers and indigenous populations, can be a superior alternative to simply exercising the choice of breaking this commitment in favour of economic gains.
- Exclusion of 'autonomy' and 'personal liberty' (Sen 1985): an emphasis on consequences might ignore the violation of autonomy and personal liberty of individuals. Consequences might be positive, but might engender a violation of intrinsic liberties or freedoms (e.g. political) without any apparent short-term contradiction.
- Exclusion of 'justice and non-exploitation' (Sen 1977*b*): consequences are often weighted through averages, without special attention to issues of justice and exploitation. Information about fairness, however, is at the foundation of civil society and cannot be ignored.
- Exclusion of other sources of information, e.g. 'introspection and discussion', or 'rights' (Sen 1987): a positive balance of consequences might ignore the violation of the rights of a minority, or simply the legitimacy of the processes used to balance the consequences.

One can choose an act that one believes will yield a lower level of personal welfare, and rank this higher than an alternative which produces better consequences in terms of welfare. The same applies to communities through processes of public participation. In a number of areas, such as dividing domestic chores, wage negotiations, playing sports with friends, or participating in deliberative political processes in one's community, the consequences are important, but are not all that matters. Sometimes it is better to 'lose' (in terms of consequences), but to proceed according to a wider motivational structure that, for example, follows criteria of either justice or responsibility. This richness of detail cannot be fully appreciated within the notion of 'capital'. For this reason, it seems useful to think of the concept of social capital in terms of 'capabilities'.

Theory of Associations v. A Theory of Justice

There is no reason why Putnam's 'morality of associations' should not be complemented by a 'morality of principles'. If justice, as Rawls puts it, 'is the first virtue of social institutions' (1971: 3, 586), there is much to be learned from an investigation of justice (even an empirical investigation) in the constitution of social capital. If justice is understood not as the formal set of already established laws and norms, but as a set of moral principles which guide behaviour that people consider 'fair', it might even be said that justice is the main form of social capital in Western contemporary societies. Justice is then a precondition, an intrinsic element, in the constitution of interpersonal networks. The principles of justice are public, like those of social capital; justice, like social capital, presents increasing returns. The effective operation of laws reinforces the case for subsequent laws. As Rawls observes, 'a more effective sense of justice leads to a more secure intention to do one's share, and the recognition of this fact arouses more intense feeling of friendship and trust' (1971: 498).

Empirical research might then be reoriented, from a search for the density of local, cultural, and recreational associations (still the foundation of much of the empirical literature on social capital) to a search for the density of *just* arrangements vis-à-vis *unjust* arrangements. Because compliance with the law depends on people's perception of how just particular laws are, one would unavoidably end up discussing the 'moral sentiments' of civic communities. There is no incompatibility between justice as the public basis of social co-operation and Putnam's approach. Comparing 'the more' with 'the less' civic regions in Italy, Putnam comments that:

> Honesty, trust, and law-abidingness are prominent in most philosophical accounts of civic virtue. Citizens in the civic community, it is said, deal fairly with one another and expect fair dealing in return. They expect their government to follow high standards, and they willingly obey the rules that they have imposed on themselves.... In a less civic community, by contrast, life is riskier, citizens are warier, and the laws, made by higher-ups, are made to be broken (1993: 111).

An important point here is that Putnam's reading of this correlation between civic behaviour and law-abidingness seems to suggest that people's morality of principles are somehow influenced by their morality of associations, when, perhaps, if there are causal elements in these vicious circles, they are to be found in the sense of justice of citizens. However, collective action depends not merely on the density (*the quantity*) of norms and networks of civic engagement, as Putnam seems to suggest, but mainly on their justice (*the quality*). Ultimately, this is bound to be an empirical question, but there are no reasons to discard a priori the importance of justice as an element for assessing social capital arrangements.

As mentioned above, the lack of emphasis on the overlaps between social capital and the public sense of justice as a basis for civic friendship is just the tip of the iceberg in this discussion. It is a sign that social capital's narrow normative approach, focused exclusively on the criteria of responsiveness and efficiency, could benefit from a broader evaluation of social arrangements, on the lines offered by (Rawls and) Sen. Thus, Sen's emphasis on a broader evaluative framework seems to provide an important complement to Putnam's theory of associations.

Individual v. Social Capabilities

If the informational basis of the capability approach could be extended to include value assessments of social structures, then it seems that social capital theory could provide a framework for the identification of social capabilities. Given that the main justification of the capability approach over competing paradigms is its ability to provide a wider informational space for normative analysis, part of its logic is to be extended, provided that this does not lead to contradictions. One important conceptual clarification is needed, to avoid the apparent contradiction of imposing onto the capability approach a meso-level of analysis that it tries to avoid. The distinction is about what should or should not count as 'capabilities'. Sen (1992, 1999) has remarked that capabilities should be chosen according to the reasons that people have to value them. Quite often these reasons are not solipsistic, but are provided by public discussion and communal understanding. Yet not all communal understanding is equally valuable, as not all forms of trust are positive. Networks can also be used for exploitation and the perpetuation of inequality, in the same form that some people can develop capabilities to harm others. So the fact that we can find historical evidence for oppression from communal understanding should not preclude our interest in how some communities are able to develop positive qualitative features (such as equality or justice) that in fact are part of individuals' lives.

If it is correct that there is a certain discontinuity between the formal and applied aspects of the capability approach, as noted by Douglas and Ney (1998), the best strategy is to face the problem by accommodating other levels of analysis other than simply denying it. In fact, it has never been suggested by Sen that the capability approach, understood as individualistic development ethics, can fully address all social and structural aspects of development problems. The issue is in which direction to go to complement the approach. An example can be illuminating here. There is, in principle, nothing structurally or historically minded in Sen's (1999) contrast between the African Americans living in Harlem and the people living in the Indian state of Kerala. Yet this comparison suggests that many capabilities could be better understood as properties of the communities of societies in which individuals live, such as the social attitudes concerning health care arrangements. Indeed, these are properties of the societies in which those individuals live, and they appear to be valuable in themselves. It then seems that any attempt to understand social capabilities does not exclude consideration of what happens at individual level, but is, rather, complementary.

By linking the social and the individual dimension, the informational basis of evaluative judgements of the capability approach could be expanded to include features of the information on the social structures in which individuals live. They could be assessed in terms of their intrinsic properties and not merely their instrumental effects on individuals' capabilities. They would allow a direct assessment of social structures in terms of their quality, benefiting from the insights produced by the considerable literature on social capital.

The social capital literature can provide a framework for identifying and analysing social capabilities. Consider one of its most useful distinctions, namely that between 'horizontal' and 'vertical' relations or networks: can 'horizontal' relations of reciprocity and cooperation within a community entitle people to capabilities that 'vertical' relations of authority and dependency cannot? Putnam's analysis of the 'internal effects' of associations seems useful here. Horizontal associations appear to shape individuals' capabilities and their capacity to convert resources into functionings. Although manifested at an individual level, reciprocal and associationist behaviour depends on the influence of variables that are defined at a higher level of aggregation. Other important variables, such as norms, trust, and reliability cannot be (methodologically) reduced at an individual level. They are not 'found' in any of the participants of the civic community, but rather constitute a 'third element' that results from the association of all parts. Horizontal relations appear to be intrinsically valuable. Any social policy conducive to their replacement by vertical relations is not only inferior instrumentally, but also intrinsically.

Other requisites, such as sense of justice, social closure, and participation, could also be included. The important issue here is that the individualistic nature of capabilities, motivated by philosophical considerations, could benefit from social considerations found in the social capital literature. The empirical relevance of such a move seems evident. When assessing problems such as poverty and inequality the traditional social capital methodology (e.g.

Krishna 2001) consists in developing quantitative measures of participation (e.g. labour-sharing groups, trust, and reciprocity) to assess the impact of associations on communal or individual economic advantage. The capability approach would focus on the impact of those measures on an individual's functionings, ignoring the constitutive role of local institutions. Synergies between these approaches could be suggested, indicating a search for a de-instrumentalization of social capital analysis (by focusing on functionings and capabilities) and de-individualization of the capability perspective (by also attaching intrinsic value to positive social capital features such as trust, cooperation, reciprocity).

Although the expression 'social capabilities' has already been used in different contexts;[17] it could be argued that social capabilities are those capabilities that can only be achieved socially, and that represent those sets of beings and doings that can only be achieved as a result of social interaction. Thus, social capabilities are those capabilities that cannot be reduced to properties of individuals; rather they reflect properties of social structures and systemic level outcomes. They may represent valuable opportunities that people can achieve as a result of their collective agency, or valuable freedoms that arise from their 'social connectedness' and cooperation. Social capabilities are properties of social structures and processes and their characteristics, such as trustworthiness, justice, reciprocity.

5. Concluding Remarks: Social Capabilities as a Multi-Level Concept

The core of the argument developed in this chapter is that the approaches of both Sen and Putnam are subject to limitations which are, to some extent, complementary. It has been argued that Putnam's concept of social capital may better refer to 'capability' than to 'capital'. Similarly, the sort of 'moral sentiments' that he suggests are behind economic development can be better qualified by a morality of principles than by a morality of associations. There is no incompatibility between them. In truth, Sen's approach could help to identify social interactions with intrinsic, rather than merely instrumental, value. In its turn, Sen's individualistic development ethics can be complemented by social considerations that can better characterize capability deprivation along poverty lines. Putnam's multilevel analysis could provide some social structure to a capabilities assessment.

Important features of interpersonal networks, such as trust or reciprocity, should also be considered in relation to their impact on individuals' well-being and agency. A society with high levels of trust, but where individuals do not have the freedom to expose their views and ideas, or to act according to what they consider right (even if the consequences are not positive), does not seem to be conducive to human flourishing. Alternatively, a society in which individuals are free to pursue their desired ends, but where they do not trust each other and 'reciprocity' is a foreign word, does not seem to be very appealing. The complexity involved in assessing individuals' advantages and states of affairs cannot ignore the apparent claim that (*a*) social structures are intrinsically valuable, and (*b*) individuals' advantages cannot be assessed only in terms of their consequences. Here lies the main source of synergies between social capital and the capability approach: in the mutual recognition of each other's valuable contributions to the literature and practice of social policy and human development. A broader normative framework, such as that provided by the capability approach, might prove useful to unearth a more solid basis for social capital research. A more structured perspective, such as that provided by social capital, would allow the inclusion of valuable, positive features of interpersonal networks into the capability analysis, expanding its informational basis.

The significance of this proposal can be empirically assessed. While most empirical analyses of social capital, such as those of Temple and Johnson (1998) and Knack and Keefer (1997) focus on variables that measure aggregative concerns based on associationist features of civic societies, important distributive considerations, based on justice and equality, remain unexplored. Empirical remarks, such as Temple's that, 'overall, high income inequality, at least to the extent it is reflected in low middle income shares, does not seem to have been a key source of Africa's slow growth' (Temple and Johnson 1998: 342), could be assessed from a different perspective. Paradoxically, he argues that 'the extent of social capital appears to be the most important' to define Africa's growth pattern. He is implicitly assuming that income inequality, and the consequences it might generate on people's sense of equality and justice, is not directly related to social capital. An alternative, empirical way of proceeding would entail measuring the distributive aspects of social capabilities. Emphasis would be put on the measurement of social arrangements which sustain unjust economic structures that interact with other capabilities at a more individual level. Different social capabilities would need to be distinguished according to different contexts, and a whole range of evaluative considerations would be needed to classify these capabilities as to whether or not they are intrinsically valuable. A proper understanding of system-level behaviour could be achieved by establishing links between communities' resources and their rates of conversion of resources. Variables, such as corruption, could be endogenized by seeing them as characteristics of social capabilities influenced by institutional arrangements which, in turn, influence justice and equality in civic communities. An open, empirical agenda might result from seriously considering the role of social capabilities in the promotion of human well-being.

NOTES

1. Earlier versions of this paper have been presented at the Workshop on Poverty, St Edmund's College, Cambridge (Jan 2000), at the 2001 EAEPE Conference in Siena and at the Seminar on Social Capital, St John's College, Cambridge (Jan 2003). I have benefited from many helpful suggestions from Simon Szreter, John Powles, Robert Putnam, and Dario Castiglione. I would also like to express my appreciation of the inspiration provided by Frank Carey and Michael Woolcock received from discussions on the I ssues tackled here.
2. Poverty ranks high in the conceptual implications provided by social capital and capability analyses. Putnam, who sees poverty as part of the poor people's inability to associate for collective endeavours, has argued that 'studies of the Italian case have the potential to contribute importantly to our understanding of why many (but not all) Third World countries remain inextricably and inexplicably mired in poverty' (1993: 159). He also quotes Esman and Uphoff (1984: 40), who corroborate the view that 'A vigorous network of membership organizations is essential to any serious effort to overcome mass poverty under the conditions that are likely to prevail in most developing countries for the predictable future' (1993: 221). Putnam also mentions that 'Precisely because poor people (by definition) have little economic capital and face formidable obstacles in acquiring human capital (that is, education), *social capital* is disproportionately important to their welfare' (2000: 318). Sen, who defines poverty as a deprivation of basic capabilities, has suggested that 'the reorientation from an income-centred to a capability-centred view gives us a better understanding of what is involved in the challenge of poverty' (1992: 151). He has also noted that ' "real poverty" (in terms of capability deprivation) may be, in a significant sense, more intense than what appears in the income space' (1999: 88). The

important point to note here is the potential relevance of the concepts of social capital and capability for addressing poverty issues. One practical question of interest for policy making might be raised here: if we are interested in tackling poverty problems, should we follow the social capital or the capability path?

3. Not everyone would agree on this point. For instance, Fine strongly criticizes 'the rational choice origins of social capital' (2001: 18). As he argues, 'Social Capital is an explicit recognition of adding society to an otherwise asocial economy' (2001: 26). Fine would claim that the individual is the unit of analysis of social capital. Dasgupta in his paper 'Social Capital and Economic Performance: analytics' (2002) provides microfoundations for the notion of social capital. He criticizes the common usage of the concept of social capital for amalgamating incommensurable dimensions. He proposes a distinction between 'capital assets' and 'resource allocation mechanisms' that can be used to handle the different features and characteristics of what is commonly called social capital. According to him, only 'interpersonal networks' would qualify as social capital, leaving the other commonly held features, such as trust, reciprocity, cooperation, as resource allocation mechanisms. By doing so, he can link the performance of networks (what the networks manage to do) with different categories of incentives (threats, punishments, benefits, etc.). Dasgupta's views, so far, are not widely representative of the literature and for this reason are not explored here. This by no means speaks about their merits.
4. In the face of the many alternative interpretations of social capital, it is important to note that it must be characterized according to the particular perspective held here (for that see Woolcock 1998; Portes 1998, and the contributions in Dasgupta and Serageldin 1999 and in Baron, Field, and Schuller 2000). Therefore, the focus here is on the Coleman/Putnam characterization of social capital.
5. Putnam has noted in his 1999 Marshall Lectures that social capital has been criticized by economists for smuggling soft concepts into economics and criticized by sociologists for smuggling 'rationality' into sociology.
6. Among these properties the following could be mentioned: accumulation, tangibility, rentability, and fungibility. For more, see the discussion below.
7. Moreover, it is not unusual to find the 'social' dimension of social capital loosely defined such that the links between 'social' and 'capital' are not clearly established; it appears that any social has the potential to become capital, per definition.
8. This question was suggested to me by Robert Putnam during the presentation of an earlier version of this paper at the Seminar on Social Capital organized by him and Simon Szreter in Cambridge. The challenge put forward by Putnam consists in finding out categories (situations) in which consequences would not play the key role in their assessment.
9. It is interesting to note that this feature of the capability approach has been under attack at very early stages of the formulation of the concept of capabilities.

Peter Townsend, in his exchange with Amartya Sen about the merits of the absolute v. relative dimensions in assessing poverty, noted that 'Professor Sen's conceptualisation does not allow sufficiently for the social nature of people's lives and needs. He is continuously reverting to physical commodities (bikes, cars, refrigerators) for his examples and to individual states of wants (like his new concept of 'capabilities'). His is a sophisticated adaptation of the individualism which is rooted in neo-classical economics. That theoretical approach will never provide a coherent explanation of the social construction of need, and hence of the real potentialities which do exist of planning to meet need' (1985: 667–8).

10. Sen's emphasis on the instrumental nature of social characteristics can be seen in his claims that 'Individuals live and operate in a world of institutions. Our opportunities and prospects depend crucially on what institutions exist and how they function. Not only do institutions contribute to our freedoms, their roles can be sensibly evaluated in the light of their contributions to our freedom' (1999: 142).
11. Sen notes how 'The history of India does indeed contain many nightmarish elements, but it also includes conversations and discussions, and extensive joint efforts in literature, music, painting, architecture, jurisprudence and a great many other creative activities. And it has included ways and means of allowing people of dissimilar convictions to live peacefully together rather than going constantly for each other's jugular' (2005: 59).
12. One might properly argue that these are two different exercises: (i) assessing 'traditions' versus (ii) assessing human well-being. However, if, in assessing people's well-being, the outcome of policies involve the dismantling of some of these 'traditions', how should they be incorporated into the analysis? Should they be seen only instrumentally to whatever levels of well-being that have been detected, or should they receive the status of 'intrinsically valuable'?
13. Sen's continuing references to the Hindu-Muslim riots in the 1940s and his 'first exposure to murder' of a Muslim daily labourer called Kader Mia (e.g. 2005: 209) is linked to the issue of narrowness of religious and community identities in his work.
14. Sen observes how 'Tagore was predictably hostile to communal sectarianism (such as a Hindu orthodoxy that was antagonistic to Islamic, Christian or Sikh perspectives). But even nationalism seemed to him to be suspect' (2005: 105).
15. Sen notes how the Chair of the Drafting Committee of the Indian Constitution, Dr Ambedkar 'eventually saw little merit in drawing on local democratic experience, since localism, he argued, generated "narrow-mindedness and communalism" ' (2005: 80). This contrasts with his acknowledgement of the history of public reasoning in India.
16. For instance, in Sen's *Romanes Lectures*, 'Reason before Identity', he argues that in the more demanding versions of communitarianism, 'It is also argued not only that the explanation of a person's moral judgements must be based on the

values and norms of the community of which the person is a part, but also that these judgements can be ethically assessed *only within* those values and norms' (1999: 7, original emphasis).

17. Abramovitz defines social capabilities in terms of 'a set of national characteristics', such as those of social attitudes, the ability to exploit technology, and the country's legal regime (1995: 28–9). Stiglitz (1995: 48–50) includes under this term the legal-regulatory environment in which firms operate and the public tax and expenditure system. Other authors, such as Bebbington (1999) and Temple and Johnson (1998), have also referred to this term. Yet this use of social capabilities was not directly influenced by Sen's use of the term, and the instrumental nature of these factors was not related to a normative assessment of these social structures. Perhaps the best approximation of the use suggested here for the expression 'social capabilities' is given by Charles Taylor's concept of *irreducibly social goods* (in Gore 1997: 243), according to which 'such goods are objects of value which cannot be "decomposed into individual occurrences" ', but refer to societies in general.

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CHAPTER 23

SOCIAL CAPITAL AND WELFARE POLICY

BILL JORDAN

In the sphere of social policy, the concept of social capital is closely associated with the reforms of welfare state institutions which took place during the Third Way administrations of Bill Clinton, Tony Blair, and Paul Keating. This model has been adopted, with some modifications, by all the other OECD countries; social policy analysts note the shrinkage in differences between party programmes (Huber and Stephens 2001: 321), and the emergence of a liberal-communitarian version of welfare regimes across Europe (Seeleib-Kaiser, Van Dyk, and Roggenkamp 2005). The model can also be recognized in World Bank prescriptions for industrializing and less-developed economies (World Bank 2001).

In this chapter, I shall argue that the concept of social capital developed in this welfare reform agenda is inadequate for the role allotted to it. Social capital is supposed to denote the elements of solidarity and cohesion in a social order made up of autonomous, mobile individuals in a market-like collective environment. Such individuals choose between the groups, organizations, and communities which supply their needs, while retaining informal bonds of reciprocity, trust, and cooperation with close others, and with a wider diversity of citizens and foreigners. Social capital of various kinds is generated in these transactions, and provides the basis for civic and civil engagement.

However, research now points towards a deeper problem in the social relations of affluent societies, which the notion of social capital does not capture. Psychologists have measured and compared levels of 'subjective well-being' (self-assessed happiness), and found that—although it is still rising in line with national income per head in most countries with average per capita incomes of less than $15,000 per year—it seems to have stalled in more affluent states (Kahneman, Diener, and Schwartz 1999). This has been taken up by social theorists and researchers like Robert Lane (2000) and Michael Pusey (2003), and by economists like Bruno Frey and Richard Layard (Frey and Stutzer 2002; Layard 2003, 2005), to cast serious doubt on the new model of institutional reform. In short, they question whether the liberal elements in the model (individualism, rivalry, property ownership, mobility, and choice) are adequately balanced by the communitarian elements (family, neighbourhood, and associational membership, plus democratic citizenship).

If subjective well-being (SWB) cannot be relied upon to increase with income, then neither traditional welfare states nor modified Third Way ones can claim to achieve improved human development. Even though rich individuals are generally happier than poor ones in any society, there is no correlation between national income and well-being—in the most recent survey, Malta, Uruguay, and Ghana all came above the UK and Germany, joint 21st in the world league table (BBC Radio 4, 2006).

On the other hand, relationships (intimate, associational, and civic) all feature prominently as components of well-being (Argyle 1999; Myers 1999; Helliwell 2002). Losing a partner through separation, losing a partner through death, and losing trust in fellow citizens are respectively four times, twice, and 0.75 times as important as losing one-third of one's income, in terms of their effects on SWB (Helliwell 2002). All this indicates that the liberal-communitarian (Third Way) model pays excessive attention to 'personal prosperity' (Blair 2004), and insufficient to qualitative aspects of social life.

The notion of social capital is taken as complementary to individual autonomy, mobility, and property in that model; prosperity and good governance are both by-products of the social capital generated by associational bonds (Putnam 1993). But there is no convincing account of how the two sides of the model are supposed to reinforce each other. The new wave of criticism argues that relationships are too stressful, unequal, rivalrous temporary and insecure in this order, and expectations too high; these strictures are all the more striking when expressed by Third Way gurus such as Layard (2003, 2005) and eminent economists such as Avner Offer (2006). Evidence of the alarming deterioration of satisfaction in relationships, even intimate ones, is not difficult to find. For example, in the UK among married men and women born in 1956, and surveyed in their early 30s, only 2 and 4 per cent respectively were dissatisfied with their partners. Of those born in 1970 and surveyed at the same age, the percentages were 22 and 26 respectively (Ferri and Smith 2003).

I shall argue that these analyses and findings point to the need for a different kind of welfare audit, and new approach to institutions for welfare enhancement. In the first place, we need to understand well-being within a framework which includes the 'relationship economy' as well as the material economy. Because each member of society must allocate time and energy between relationships with others, as well as between work and 'leisure', production and consumption, such decisions must be taken into account in analyses of how resources are deployed. Our value to each other should be included in the calculation of our assets, and our needs for intimacy, respect, and belonging factored in to policies for promoting human development. For example, since there is evidence that affectionate and attentive parents can do more to boost their children's relative educational achievements than material advantages can bestow, this suggest that policy on equality and inclusion should take account of such 'relational goods' as well as the success of particular schools, or the advantages of specific residential districts (Swift 2006).

But it also implies that relationships and emotions should be considered intrinsically important in other spheres of welfare policy and practice, where they have been systematically neglected. For example, the reform agenda has treated *services* as exactly like other commodities—to be 'delivered' to individuals who choose between a range of suppliers. But social services are intrinsically relational; a doctor, nurse, teacher, or social worker cannot separate themselves from the expertise and care they supply, and must use the medium of a relationship to communicate that service. This implies that governments should pay at least as much attention to how health care, educational, and social welfare agencies promote good relationship as to league tables of technical outcomes, and to the contexts for collective well-being as to individual preferences (Jordan 2005, 2006).

In the sphere of social policy, social capital theories suggest that the associational life of neighbourhood, community, and civic engagement allows individuals and societies to accumulate stocks of reciprocity and trust, which can spill over into other transactions. It attributes conflicts and exclusions to the wrong kinds of social capital—loyalties and bonds which reflect atavistic cultures of faith, blood, and soil. This gives rise to policies for 'social cohesion' which are incoherent in the face of the challenges outlined above.

I shall argue that the liberal-communitarian model will be required to evolve along two quite separate lines. On the one hand, its income redistribution system will have to allow citizens to choose between time spent in activities directly contributing to their quality of life, including the unpaid 'relationship economy'. This implies something like a Basic Income approach, already emerging in relation to the 'citizens' pension' debate in the UK (Jordan et al. 2000). On the other, it means that services must be seen as a terrain for engagement between citizens (and non-citizens), in which good relationships as well as individual choice are fostered. This has radical implications for the roles of professionals and administrators in the welfare services.

1. The Liberal-Communitarian Model

In the Third Way and World Bank analysis of welfare, individuals appear as agents who seek moral sovereignty and self-development as well as utility maximization (Cruikshank 1996). They are motivated by the desire to accumulate the means of autonomy (human, physical, and financial capital), and therefore wish to make choices over collective goods as much as private ones. So welfare institutions, such as pension schemes, health care systems, and housing subsidies, should give them opportunities to contribute to their own portfolios of such rights, as part of their projects for self-responsibility and active citizenship (Giddens 1994).

Taken on its own, this account of what moves individuals might pass as orthodox neo-liberal, or even libertarian, dogma. However, social capital—a public good—enters the story in two ways. On the one hand, insofar as these agents interact together to resolve collective issues, in organizations of one kind or another, they generate (almost in spite of themselves) norms and practices of trust, reciprocity, and cooperation, and networks of mutuality. On the other hand, these social institutions in turn reduce transaction costs, and hence promote efficiency in the economy; and they give rise to a robust civil society, and a culture which is congenial for democratic politics. Individual and social welfare are enhanced by both these elements.

The clear implication is that social capital supplies a set of (largely invisible, taken-for-granted) rules for all transactions, and a system of cultural institutions which pervades all formal structures. In this way, it becomes part of the organizational fabric of societies, and indeed *explains* how this either does or does not work to the advantage of all participants. One goal of government thus becomes the creation of institutions which promote and conserve social capital—as in the case of 'active welfare', 'empowered communities', and 'social enterprise' in the UK under the present government (DSS 1998; DTI 2002). The rules for benefits supply incentives for taking paid work; urban regeneration and social inclusion projects promote local associationalism, and groups are encouraged to tackle problems in businesslike ways.

But the notion of social capital cannot bear the weight of these theoretical requirements. By definition it is a by-product which spills over from business, politics, philanthropy, self-help, or recreation. Individuals will not engage in any of these primary interactions unless they recognize the advantages of pursuing them; and they will divide their time between them according to some hierarchy of the gains they perceive as stemming from each. It cannot therefore make sense for government to seek to maximize social capital as a rationale for any of these activities. People will participate in politics, or join civil society organizations, or take exercise in sports clubs, because of benefits intrinsic to these spheres. There must be an increase in their welfare that stems directly from any such activities—or indeed from family, friendship, or faith-based ones.

What all the activities which are supposed to generate social capital have in common is that they involve relationships, and require negotiated solutions to problems. The exchanges between participants are based on communications of *social value* (Goffman 1972); things can only be done by interpersonal transactions in which respect (Sennett 2003), belonging or intimacy (Giddens 1991) are created and sustained. These social units run on social value, both supplying participants with 'affective' or 'relational' goods, and linking them in complex circles and networks.

Inevitably, of course, these relationships involve power, dominance, and compliance—emotional, social, and political. They are labour intensive, in the sense that they require time and energy in negotiation and communication, but in many of them participation and sharing with others is counted a benefit rather than a cost. Unlike markets, these organizations and activities rely on *voice* rather than *exit* options. Whereas markets promote mobility and switching between products and suppliers, politics, associationalism, community, and sport all see loyalty as desirable (Hirschman 1970, 1981*a*).

However, this reveals a tension at the heart of the liberal-communitarian model. Following on from the neo-liberal period of economic restructuring and especially the reforms of public sectors in the anglophone countries in the 1980s, it creates a set of institutions all of which encourage individual choice and exit options, rather than voice and loyalty. The literature of public choice (Buchanan and Tullock 1962; Friedman 1962: chapter 6; Olson 1982) all portrayed voice-orientated organizations (lobbies, social movements, trade unions, and professional associations) as 'rent-seekers', trying to capture economic assets and income streams without contributing to efficiency or welfare. This will be further analysed in the next section.

Insofar as the Third Way/World Bank model still holds to this reform agenda, it continues to promote exit over voice. If voice activity is the main source of social capital, the result is inevitable—it declines, especially among marginal groups, for whom collective action no longer 'pays'. So public policy shifts towards the attempt to generate social capital *directly*, rather than as a by-product of intrinsically advantageous action, in relation to these groups. Meanwhile, the nature of collective action changes in mainstream society also (Skocpol 2002). Individuals seek the most advantageous and personally developmental groups; 'people shop around for places to go, even to worship' (Cox 2002: 338).

However, there are other features of the model which partly offset this central inadequacy. Social capital theory also purports to explain the deficits in capabilities (Sen 1984) of people living in districts or whole regions (including poverty-stricken nations) of intense deprivation. The concept connotes the downward spirals of exclusion and impoverishment experienced by such communities in the period since 1980—lack of social capital is intended to replace such morally loaded terms as 'underclass', 'ghetto', 'sink', 'failed state', and 'basket case'. Hence it justifies intensive interventions, especially by NGOs, to revive cooperation and self-help projects in these districts, regions, and states (World Bank 2001).

2. Social Capital and Welfare Reform

Social capital, as a concept relevant to the welfare reform process, did not appear until the 1990s. By this time, the main thrust of the reform movement had its own momentum and trajectory; it was already fuelled by a set of economic arguments and driven by certain political interests. New notions, of empowerment, inclusion, and citizenship, were used to transform a neo-liberal agenda into the centre-left Third Way programme and the World Bank model (Waddan 1997). Social capital theory was part of this transformation.

In essence, the welfare reform movement had its intellectual origins in a critique of the role of government in the economy, and of how decisions about the supply of public goods were reached. In principle all goods, could be produced informally, commercially, or collectively (Buchanan and Tullock 1962: chapter 5), and distributed through markets, states, or 'clubs' (Buchanan 1968). In the Keynesian era, economic theory had come to see government as a major autonomous actor, with a whole sphere of operations ('welfare economics'), in which it made these decisions, under a mandate given it by the electorate. In other words, decisions about the scope and distribution of collective goods of all kinds were taken first at the ballot box, in the democratic franchise, and then by politicians, bureaucrats, and professionals, acting under this authority.

The critique of both Keynesian economic governance and welfare state institutions focused on the perverse incentives and moral hazard concealed in these systems. Public sector actors of all kinds had incentives to oversupply public goods, in order to increase their budgets and power (Friedman 1962). Within the social services, whole professions and bureaucracies fostered workforces and clienteles who relied upon their patronage (Niskanen 1975). The result was a never-ending growth in public expenditures, to the detriment of the productive economy (Olson 1982; Bacon and Eltis 1980).

The positive contribution of this school of thought was in showing how choices about collective goods could be revealed by the actions of individuals, other than as voters. On the one hand, they could form themselves into groups to supply each other with such goods, or cluster around collective facilities in 'clubs', so long as they had the means to set their own membership fees, and to exclude non-contributors (Buchanan 1965). On the other, they could move to wherever there were bundles of local amenities (including public services) which gave them good value for their accommodation costs and local taxes (Tiebout 1956). Both these ways of expressing public choices were attractive to these theorists, because they gave sovereignty to individuals, and restricted that of governments and officials. This promised to improve efficiency and keep down tax rates, as well as limit political authority (Oates 1972).

On this account, both 'welfare economics' and the institutions of the welfare state muzzled the expression of choices over collective goods, and turned citizens into 'passive' recipients of 'standardized' social services. This was clearest in the case of transfer payments; people who received state benefits on account of unemployment, sickness, disability, or retirement were required to be outside the labour market to become eligible. But in another sense all had strong incentives to be active—as participants in groups and lobbies, unions and protest movements, urging the case for more government funds to be allocated to their needs. The goal of policy, it was argued, should be to transform the demanding but dependent citizens of the old welfare regimes into purposeful, rational consumers exercising choice in 'social markets' (Davies 1992).

On a global scale, the Washington Consensus of the 1980s and 1990s was a programme for imposing new rules for monetary stability and fiscal prudence on debt-laden developing countries, as conditions of loans from the International Monetary Fund and World Bank. An important part of the programme for controlling government spending was the creation of 'social markets' of this kind, seen as a way of reducing 'rent seeking' by politicians and officials. In this view, poverty was best reduced simply by freeing individuals to be active within markets. It was in relation to the failures of this model, and especially to the problems of the transition in the former communist countries of the Soviet Bloc after 1989, that these margins began to be questioned. The debates in the international financial institutions, and the eventual conversion of the World Bank to a 'softer' line (Stiglitz 2002), was paralleled in the emergence of the Third Way in the USA and UK. It is no coincidence that social capital played an important part in the modifications of the neo-liberal programme made in both the national and the international versions (Dasgupta and Serageldin 2000).

The revisionist view addressed the reasons why poor and disadvantaged individuals might not be able to avail themselves of the 'opportunities' which arose when governments withdrew from the economy. In the least developed countries, and the post-communist ones, a kind of vacuum was left, in which neither enterprise nor markets sprang into being; the explanation lay, it was now claimed, in the lack of cultural resources for these new relationships. Hence what was needed was an investment of expertise and guidance, aimed at social regenerations through partnership and empowerment. NGOs were the ideal vehicles for these programmes, since they were models of voluntary collective effort, and experienced in enabling poor people to act effectively in their interests (Sen 1999: 265–8). More ambitiously, the World Bank claimed that this approach should aim to build social capital among poor people, so as 'to enhance their potential by linking them to intermediary organizations, broader markets, and public institutions' (World Bank 2001: 10).

In the same way, programmes in the USA and UK focused on deprived districts, aiming to involve community members in addressing problems such as homelessness, truancy, and drug abuse (Jordan with Jordan 2000). By trying to stimulate participation of local residents, they explicitly sought to create social capital which could spill over into the regeneration of the local economy, and the improvement of the infrastructure (DETR 1998).

However, the revisionist analysis also focused more sharply on the reasons why individuals from these districts, and other low-skilled people claiming unemployment, lone-parent, or disability on social assistance was attributed partly to lack of personal resources for autonomy and self-development, and partly to involvement in subcultures of deviance, petty crime, and informal (undeclared cash) work (Waddan 1997). The latter represented the kind of 'bad' social capital that accumulated in impoverished districts, and which led to individuals adopting norms and joining networks of resistance to mainstream standards and authority structures. All this justified regimes of enhanced re-socialization, including official pressure to accept training or employment, under threat of losing benefits—workfare in the USA, the New Deals in the UK (Cox 1998).

So the idea of social capital, along with activation, partnership, and empowerment, justified a more interventionist approach to welfare reform, in the name of inclusion and social justice. Superficially, the new concepts fitted well into the old framework, as ways of 'making markets work better for poor people' (World Bank 2001: chapter 4). But no serious attempt has been made to address the potential incompatibilities between the two parts of the new model—that which advocates free movement, free trade, and the expression of individual choice over all decisions, including membership of collectives and supplies of collective goods; and that which promotes participation, cooperation, and mutuality in all kinds of social units.

In particular, social capital scholarship hitherto shows a remarkable lack of interest in what seems its obvious counterpart in economics—public choice theory. Considering that the term was borrowed by Putnam from Coleman (1988, 1990) precisely because of its resonance with economics (Putnam 2001), there has been almost no attempt to explore the overlapping territory between them. For example, there are no references to public choice theory or research in the otherwise exhaustive *Bowling Alone* (Putnam 2000); and none either in his volume of edited country studies, *Democracies in Flux: The Evolution of Social Capital in Contemporary Society* (Putnam 2002). (In fact there are cryptic references to social capital as a 'club good' in the chapters by Hall on Great Britain and Offe and Fuchs on Germany, but this concept is not even listed in the index.) My purpose in the next section is therefore to investigate the implications for social capital theory on welfare of the 'choice agenda' on collective goods.

3. Bridging, Bonding, and Quitting

The key issue is the extent to which the expression of social choices through club formation and 'voting with the feet'—the two major mechanisms of preference revelation favoured by the Third Way model—are compatible with the creation and conservation of social capital. To the extent that agents are encouraged to switch and shift between suppliers of collective goods and jurisdictions, to get 'best value for money', this represents a deliberate privileging of exit mechanisms over the voice ones which characterized welfare states. But does this mean that citizens devote less time to associational activity, and hence that they trust, reciprocate, and cooperate less? After all, Putnam's chosen paradigm of social capital building is the (state) school Parent Teacher Association (Putnam 2000: 289–90). Do league tables and performance measures, along with a culture of parental choice, aimed at identifying schools which 'add most value' to pupils' potential, encourage such activity, or merely promote 'shopping around' by well-informed consumers?

The significance of these questions is highlighted by the distinction, claimed as the 'most important' variation in types of social capital by Putnam at the start of his US study, between '*bridging* (or inclusive) and *bonding* (or exclusive)' forms (Putnam 2000: 22, emphasis in original). The former are created in networks which are 'outward looking and encompass people across diverse social cleavages'; the latter are 'inward looking and tend to reinforce exclusive identities and homogeneous groups' (ibid.). Clearly welfare state institutions aimed to create solidarities across class, ethnic, gender, and faith divides. The goal of social citizenship was to stimulate the kinds of interactions between diverse groups which might be expected to generate bridging social capital. It would follow from this that the erosion or dismantling of welfare state institutions could be expected to lead to a decline in stocks of this form of social capital in particular.

Despite the breadth and depth of his investigation of the US case, Putnam never systematically tests this hypothesis. When he might be expected to do so, he instead turns back to an earlier historical period (the late nineteenth century) in which he claims a parallel decline in social capital had occurred (Chapter 23). The reason he is unable to test the relevance of the welfare state for bridging social capital is, as he acknowledges, that the distinction between the two forms is not sustained in his analysis and measurement.

> I have found no reliable, comprehensive, nationwide measures of social capital that neatly distinguish 'bridgingness' and 'bondingness'. In our empirical account of recent social trends in this book, therefore, this distinction will be less prominent than I would prefer. (Putnam 2000: 24)

This admission is particularly damaging because the choice agenda, which has been central to welfare reform and the restructuring of the public sector in the Third Way/World Bank model, sets out to enable individuals and households to sort themselves into groupings with similar incomes, tastes, needs, and risks. Indeed, the mechanism by which greater efficiency and lower costs to taxpayers are achieved is one of members selecting between competing 'clubs' and jurisdictions over various collective goods, and switching to those which give them the best terms for the subscriptions or local taxes they can afford. This process of differentiation and specialization is intended to allow variation according to risk as well as by quality of service. Its advocates concede that it tends to segregate the rich from the poor, and that those with fewest resources and least mobility tend to become concentrated in districts with the most problems and worst services (Cullis and Jones 1994: 297–300).

This is just what Putnam's investigations discovered in the USA. From the 1970s onwards, increased mobility and suburban sprawl meant that those fleeing the inner city 'sorted themselves into more and more finely distinguished "lifestyle enclaves", segregated by race, class, education, life stage and so on' (Putnam 2000: 209). Although some new developments claimed that they encouraged civic engagement, the results showed that more homogeneity led to less associational activity. 'By creating communities of homogeneous political interests, suburbanization reduces the local conflicts that engage and draw the citizenry into the public realm' (Oliver 1999: 205).

While pointing out that 'sprawl has been especially toxic for bridging social capital' (2000: 214), Putnam does not make the link between the choice agenda and this phenomenon. The research demonstrates that exit options are often alternatives to voice ones, and that the act of selecting a membership group or residential community can substitute for activity aimed at improving a school or creating new neighbourhood amenities.

In the UK, these connections are demonstrated in more subtle ways. On the one hand, membership of voluntary organizations and informal social groups has not declined significantly in the period since Margaret Thatcher came to power; but on the other levels of trust in fellow citizens have fallen, especially among the young (Hall 2002: 32). This seems to call into question the close connection between civil society participation and norms of civic trust made in Putnam's work. In particular, it raises doubts about whether social capital generated by activity in exclusive groups (bonding form) spills over into the civic sphere (bridging form).

This is exactly the point raised by Hall's analysis. Since 1980, there is some evidence that the kinds of membership organizations joined by UK citizens involve less personal participation, and more impersonal benefit. They may be less concerned with the public interest, and more with bestowing advantages on their members. As Hall puts it:

> The character of civic engagement in Britain may have shifted away from organizations dedicated to the public interest, in whatever way that is construed, and towards those oriented primarily toward the instrumental purposes of the individual.
>
> (Hall 2002: 48)

Furthermore, the maintenance of membership levels has masked a change in the distribution of associational activity. Because of the rapid growth of the middle class in the UK, and because voluntary organizations have attracted members from the new bourgeoisie, this has disguised a rapid decline in participation of all kinds by the working class. In particular, among men in class V born in 1946, 58 per cent belonged to trade unions or other organizations at the age of 30; among those in class V born in 1970, only 2 per cent did (Bynner and Parsons 2003: Figure 10a).

> . . . the more accurate image is of a nation divided between a well-connected group of citizens with prosperous lives and high levels of civic engagement and other groups whose networks, associational life, and involvement in politics are very limited. . . . The two groups who face marginalization from civil society are the working class and the young. (Hall 2002: 53)

The similarities with the picture of the USA are borne out by analyses of the consequences of geographical mobility. A detailed study of census data has shown an accelerated tendency for districts to display homogeneity of residents, by class, education, age, and ethnicity (Dorling and Thomas 2003). Even if this has not had the effect of reducing engagement by the middle classes, it again indicates that the social capital generated is increasingly of the 'bonding' type, and that more resourceful and active citizens are leaving poor districts, further distorting the distribution of social capital.

If the goal of a welfare regime is to strike a balance between individual autonomy and good social relations between citizens, what should be the role of government agencies and the public services? If the anglophone model, based on public choice economics, is too individualistic, what institutions can offset this? Do public services sustain or limit active citizenship and associationalism?

It is fortunate that social capital has been very extensively researched in Sweden, the European country with the longest history of Social Democratic government. Furthermore, this has been undertaken partly with a mind to the implicit accusation of the original welfare reform ideology—that deep penetration of government agencies into civil society, high public spending, large proportions of employment in public services, and decision making over collective goods and distributional shares through negotiations between representative elites, all contribute to citizen passivity and a hollowing out of the associational life of the community.

The evidence shows that high rates of participation in voluntary associations of all kinds, stemming from the traditions of social movements and local activism in the nineteenth century, has been sustained both through the development of the Swedish welfare state (with its reliance on dense networks of negotiation between state agencies and civil society groups), and through the subsequent decline of the 'Swedish model', and the diminished significance of such methods of governance. At a time when associational activity in the USA first waxed (during the first eighty years of the twentieth century) and then sharply waned, Swedish participation and membership remained buoyant, and if anything increased at the end of that period (Rothstein 2002: 295–305).

The significant point is that, although there has been both disillusionment with many aspects of the corporatist institutional structures of the 1960s to late 1980s, and a cultural shift towards more individual autonomy and moral sovereignty, this did not undermine collective solidarity. In particular, it did not damage the links between the middle and working classes, or the redistributive systems between genders and age cohorts. Research on these more individualistic New Swedes shows that

> ...they do *not* show any stronger interest in increasing today's wage differentials, they do *not* evidence any greater tendency to view the poor with a 'they-just-have-themselves-to-blame' attitude, they do *not* show any stronger tendency to regard their fellow beings in less of a spirit of trust and fellowship.
>
> (Petterson and Geyer 1992: 28–9)

Rothstein's interpretation of these findings is that the new 'solidaristic individualists' are 'willing to give support to other individuals, but also to accept that they have other, different values and want to engage themselves for different causes' (2002: 308). He regards this as a form of reciprocity over lifestyles, which involves a combination of individual autonomy and social responsibility. The question is therefore how Swedish institutions achieve this mixture of features which are seen as mutually incompatible alternatives in the Anglo-American perspective.

In Rothstein's analysis, Swedish society has achieved even higher levels of trust and civic engagement in the 1990s than in the heyday of political corporatism because of its welfare state. Commitment to redistribution through universal social insurance provides the framework of mutual security in which Swedes are able to combine freedom with solidarity (Rothstein 2002: 323–4). And this is sustained despite the breakdown of the specifically political institutions for negotiations over the economy between employers, unions, and the state (2002: 327–30). This implies that, at least in the Swedish case, the social capital generated in the economic sphere, which spilled over into politics through the complex corporatist system, was less crucial for civil society and citizenship than the social capital which stemmed from welfare institutions (interactions in health and social care as well as social insurance). Although Swedish democracy is, in Rothstein's words, 'in a state of deep crisis' (2002:

294), Swedish society seems to be in robust good health. On this account, far from undermining trust, activism and cooperation, this kind of welfare state is more important for social relations than democracy itself.

4. Exclusion, Stigma, and Empowerment

The examples compared so far illustrate the pitfalls of trying to draw conclusions about the causal links between institutions in general (and welfare systems in particular) and social capital. In the USA, the welfare reform movement mobilized support by attacking those aspects of the system which were already unpopular and stigmatized, especially public assistance for (mainly black) lone parents. The argument that 'welfare' made recipients idle and feckless, and cut them off from the mainstream ethic of work and responsibility (Mead 1986), appealed to a long tradition of social research (Moynihan 1969) and political struggle. Conversely, since that country had never had a public health care system, the notion that individuals should be free to choose with which others to share insurance-style risks met no institutional resistance, and was not seen as part of the 'welfare reform' debate. Hence programmes for activating the poor, and for giving citizens more choice over collective goods, could be kept separate.

In the UK, the critique of the state's role in these issues had quite different implications. In the Beveridge model of the welfare state, the principle of universality was of paramount importance both in income maintenance and in public services, especially the NHS. However, low replacement rates of benefits and low standards of service provision reduced its effectiveness in practice. Whereas in the USA, arguments from the social choice critique were used to reduce spending on public assistance programmes, in the UK they were deployed to expand the scope of 'targeted', means-tested benefits. In the field of health and social care, Conservative governments did not attack the principle of coverage for all, but used the public choice model to justify state 'purchasers' acting as proxies for citizens in buying services from a range of public and commercial 'providers' (DoH 1990).

Because both US and UK governments of the 1980s embraced measures which exposed their economies to global forces, and allowed the winds of 'creative destruction' to blow through their labour markets, the effects of these different debates and programmes were not dissimilar. Above all, they resulted in concentrations of poor people, including minority ethnic enclaves, who experienced the highest rates of almost all forms of deprivation, disadvantage, deviance, and disruption. Soaring rates of crime and imprisonment in both countries, and increased spending on correctional, remedial, and other interventions, gave rise to the Third Way alternative, and to the new focus on social capital, particularly in these communities.

The positive parts of this programme in the UK were concerned with linking members of this excluded sector back into the mainstream. On the one hand, individuals who had spent time outside the labour market, whether through unemployment, lone parenthood, or disability, were to be counselled and trained back into regular employment (DSS 1998). On the other, intensive new measures in deprived areas sought to regenerate the infrastructure and develop new services. The latter aimed at creating partnerships with local associations and community groups, with the aim of stimulating voluntary activity, and hence replenishing social capital.

Insofar as these programmes gave incentives for individuals and groups to participate in the desired activities, they have achieved a good deal of success. In the case of the New Deals, the rapid expansion of tax credits for low-wage and part-time employees has greatly reduced the unemployment trap, under which people were often better off on benefits than in work. In the various initiatives for deprived communities, the fact that funding has been made available to partnerships between local associations and public agencies has stimulated the former to come forward with plans and activities which fit the programmes (Jordan with Jordan 2000).

In these ways, the new initiatives have created miniature welfare states in those districts which, under the Conservative regime, had been left to their own devices, except for the attentions of the enforcement authorities. Programmes like the New Deal for Communities, the Single Regeneration Budget, Sure Start, and the Children's Fund have involved groups of residents in the design and provision of services, providing employment and interaction on a whole range of relevant issues. While these have had limited effectiveness in offsetting the disadvantages suffered by residents in these districts, they have certainly been successful in involving them with a range of professionals and officials from the mainstream, and in more constructive projects than had existed in the previous twenty years.

It is easy to see the parallels between this approach and the World Bank's Development model. In the developing countries, voluntary organizations have funded and led projects for enhancing self-reliance in poor communities, and improving skills; they have also tried to promote infrastructural and environmental measures. There too, the stimulation to the local economy, and the very processes of interaction with the funding agency's staff, have developed communal cooperation. However, there is little evidence that these gains have influenced outcomes over wider issues, such as land distribution, which involve conflicts of interest with more powerful groups (World Bank 2001: chapter 4).

The key question about all these targeted and focused interventions is therefore whether the extra social capital generated improves excluded and deprived people's access to the circuits of finance and physical capital which drive forward the global and national economies, and to the now limited general provision for citizens supplied by governments (in the form of education, health, and social care). The problem is that the rationale for both commercial and state provision of collective goods directly limits access of this kind. In promoting individual autonomy, choice, mobility, and selective groupings, mechanisms like co-payment (Robinson 2003) discriminate against the poor, as the model recommends they should. Without a universal framework for redistribution such as Sweden's, better-off citizens are keen to insulate themselves from the claims of the poor, and there are incentives for them to do so. This helps explain the lack of progress in reducing inequalities in the UK, despite the considerable investment in targeted and focused expenditures under New Labour (Joseph Rowntree Foundation 2003).

Indeed, even in Sweden there is evidence that targeted interventions can have negative effects in terms of overall social integration and cohesion. Even though Swedish welfare officials have always had powers to require unemployed claimants to do work to 'earn' their benefits, so activation programmes are part of the welfare state tradition, research shows that the high levels of trust in fellow citizens expressed by those receiving social insurance pensions and disability benefits are not shared by claimants of means-tested social assistance, and that these levels are lowest of all among participants in welfare-to-work compulsory schemes (Rothstein and Stolle 2001). This should not surprise anyone who has read the literature of stigma in welfare over the past 200 years; programmes which target the poor, and especially those which justify themselves in terms of focusing on the deficits in their contributions to society, are notoriously stigmatizing (Titmuss 1958). Indeed, it would require special measures to reconnect such individuals and groups fully with the mainstream social capital shared by even Sweden's well-endowed civic citizens.

5. Conclusions

The concept of social capital is crucial to the communitarian element in the liberal-communitarian version of a welfare regime. It is supposed to balance the emphasis on individual autonomy through the accumulation of human capital (education and training) and property (financial assets and home-ownership). The collective life of society is meant to promote associationalism and democratic participation, giving rise to norms of reciprocity, trust, and cooperation. But the doctrinaire transformation of the public sector, which encourages switching and shifting among suppliers of services (seen as *goods*, to be delivered to individuals) has undermined the cultures and social relationships on which such activities relied, especially among poor people.

I have argued that social capital is an unsatisfactory notion in which to capture the relational goods that arise from social interactions. These are far more complex, diverse, and ambiguous than the inadequate categories of 'bridging' and 'bonding' capital can allow. For example, 'intimacy' is one of the goods of close emotional relationships, but can lead to obsession and to self-exclusion from other bonds, and to power and exploitation (Giddens 1991, Beck and Beck-Gernsheim 1995). 'Respect' is what we all demand, as an acknowledgement of our human rights and democratic citizenship, but it has been traditionally very unequally distributed, and is still little accorded to certain minorities (Sennett 2003). 'Belonging' is supposed to be a good of community, but some of the closest-knit communities are also the most hostile to the mainstream; attempts to include or 'integrate' them may lead to even greater exclusion and deprivation for some of their members (Leonard 2004).

It seems that the Swedish welfare regime, with its high level of income transfers and dense networks of universalistic public services, has provided a better balance between individualism and collective solidarity than the anglophone model. Sweden and the other Scandinavian countries consistently emerge at the top of league tables for subjective well-being, both for adults (Diener and Suh 1999) and children (Bradshaw, Hoelscher, and Richardson 2005). Not only does this institutional framework seem to supply a better basis for associationalism (and hence the relationship goods of community); it also appears to provide a more coherent setting for family and kinship relations.

However, it is highly unlikely that other affluent societies can take these welfare regimes as their models. The long-standing differences between liberal, Christian Democratic, and Social Democratic traditions (Esping-Andersen 1990), together with greater ethnic diversity in other OECD states preclude this. Instead, it seems far more feasible for those states which have come furthest in adopting the liberal-communitarian approach to pioneer another set of transformations, which might bring about a better balance between individualistic and collective elements.

Instead of fostering a strong ethic of work and property accumulation, a welfare regime which was more attuned to the enhancement of well-being would aim to be neutral between activity which boosted earnings and savings and that which fostered relationships and emotional flourishing. At present, tax credits, which have become the main instrument of redistribution towards poor people of working age (Newman 2002), are aimed at providing incentives for less skilled people, with low earning power, to take low-paid and 'non-standard contract' (temporary and part-time) jobs. But they are not available for people involved in childcare, care of older relatives or disabled family members, community, cultural or political work, or for students. One way to encourage these forms of activities (and hence the enhancement of relational goods) would be to convert tax credits into a 'Participation Income' (Atkinson 1995), for anyone during these socially necessary tasks. But the bureaucratic costs of such a system would point towards a further transition, towards a Basic Income scheme, in which all tax allowances and credits were rolled up with all social insurance and social assistance benefits, to create a universal and unconditional guaranteed sum for all, that would equally enable all these activities (Jordan et al. 2000).

If this seems a remote possibility within present political cultures, one should bear in mind that the 'targeted' means-tested approach espoused in the UK is already running into difficulties. In relation to pensions, its extension to run ever wider circles of retired people destroys incentives to save; now the pensions industry backs a 'citizens' pension' proposal which adopts the Basic Income principle. In relation to people with disabilities, it is questionable whether tax credits are flexible enough to accommodate the range of possible contributions that such citizens might be willing and able to make, and whether it would be efficient (in terms of productivity and competitiveness) to insist that they do commercial jobs. The idea of fuller engagement in social life, rather than paid work, seems more feasible for many.

Furthermore, this approach to income distribution would be more consistent with the view of *services* implicit in this chapter. I have argued that the public choice agenda of individualized choice and 'delivery' obscures the essentially relational features of social services (Jordan 2005, 2006). In order to promote exit options and enhance the individualized consumption of social and health care, governments have played down the extent to which services create relational goods, and their importance in working contexts in which individual lives achieve coherence. At their best, services provide a set of resources in which citizens can make sense of their social worlds together.

However, there were some grounds for the culture of bureaucrats and professionals in the public choice literature. There were certainly examples of how officials and experts used their power over service users in their own interests. A new model, designed to promote well-being, would encourage service users to organize many more of their own facilities, and to employ administrators and professionals to serve them. This would, of course, be enabled by the Basic Income approach to income maintenance, which would allow patients, parents, and disabled people to use their time and energies to undertake such tasks of organization and mobilization.

What the studies of European countries have revealed is that supplies of social capital are not dependent on voluntary associationalism alone. The institutional framework set by government is an equally important influence, and the form taken by civil society organizations is considerably shaped by this. In relation to the effects on collective action of public provision of income, health, and social services, it is clear that the forms these take matter greatly. There is no evidence that the kinds of mutual insurance schemes which are the backbones of the European Social Model reduce participation and trust—rather the opposite (Cohen and Arato 1993: 664). The critique of welfare states which drove the reform movement of the 1980s and 1990s was based on a specific economic logic, and favoured specific forms of collective action and commercial provision of welfare goods.

I have argued that the main effects of the organizational changes facilitated by that movement have been to promote the expression of collective decisions through the exercise of exit rather than voice options—as indeed they were intended to be. In Hirschman's words, they were meant to introduce a mechanism which was 'far more "efficient" than the "cumbersome" political process for the redress of people's grievances or the fulfilment of their demands' (Hirschman 1981*b*: 252). Research on social capital has yet to focus specifically on the extent to which the opportunity to switch between suppliers of collective goods (the choice agenda) undermines active participation, as well as bonds between diverse members of a society.

In an age of accelerated mobility across national borders, and an international division of labour, their mobilization of populations within states, for collective solidarity on these issues, is in many ways no longer appropriate. The question for the new century is how it is possible to achieve on a global scale the balance that seems to exist in Swedish society. How can individuals who seek autonomy and moral sovereignty be willing also to contribute to resources for support of others who are far less enterprising and mobile than themselves (Jordan and Düvell 2003)?

In other words, the kind of 'bridging' social capital which is increasingly relevant is not just that between citizens of nation-states, but also between members of a global community. Thinking about institutions for sharing between the world's population is still in a very early stage (Pogge 2002). In order to supply analyses relevant to these new debates, social capital studies will require to be separated from some of their ideological associations on welfare issues.

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CHAPTER 24

PUBLIC POLICY AND SOCIAL CAPITAL[1]

VIVIEN LOWNDES
LAWRENCE PRATCHETT

1. Introduction

This chapter critically examines policy makers' burgeoning interest in social capital. We follow Michael Woolcock (2001) in defining social capital as 'the norms and networks that facilitate collective action'. Social capital may be regarded as a *policy resource*—an input to policy making and implementation alongside financial capital (revenue, investment), human capital (skills, individual capacities, knowledge) and physical capital (buildings, equipment). As James Coleman (1988: 98) comments: 'Like other forms of capital, social capital is productive, making possible the achievement of ends that in its absence would not be possible.' But social capital may also be regarded as a *policy outcome*. Here interventions seek to influence the stock or distribution of social capital itself—within a neighbourhood, locality, or nation. Social capital is understood as 'the collective goods, facilities and services' produced by and within a community (as opposed to the market or government) (Newton 1999: 3). Policy makers may seek to augment or protect reserves of social capital because they are associated with other desirable policy goals. As Woolcock (2001) argues: 'the well connected are more likely to be housed, healthy, hired and happy'.

As either a policy resource or policy outcome, social capital is not an easy concept for policy makers to work with. Definitional problems mean that it can represent all things to all people while, at the same time, remaining ambiguous and inexact in any given policy context. The precise mechanisms through which social capital influences policy outcomes are often unclear and unspecified. The benefits of policy interventions to enhance or redistribute social capital are often contingent and uncertain. Nevertheless, its appeal to policy makers is widespread, from the World Bank's 'Social Capital Initiative' through to highly localized policy interventions. We argue that, despite these shortcomings, social capital is a useful concept for policy makers because it focuses attention on the 'soft' but more complex factors that affect public policy and provides an opportunity for policy makers to address those issues that might otherwise be ignored. In particular, it shifts the attention of policy makers away from an understanding of policy that is locked into discrete policy arenas and emphasizes the role of social and community relations in mediating policy interventions. Consequently, concepts of social capital help policy makers to address problems and values associated with their understanding of communities in ways which conventional policy discourse inhibits.

The chapter starts by considering social capital as a policy resource. New styles of governance emphasize the importance of networks and trust in policy making and implementation. Bringing social capital into the policy process is seen as enabling inclusion and innovation, reducing the rigidities associated with traditional hierarchical arrangements. But just as social capital can be a resource for participative policy making and 'co-production', so too can it legitimize the power of informal, exclusive cliques. Is social capital an essential resource for policy making in an era of multi-actor and multilevel governance? Or is reliance upon social capital actually antithetical to the principles of rational and accountable policy making?

The chapter goes on to look at social capital as a policy outcome. In fields as diverse as childcare, crime prevention, health promotion, and economic development, social capital has been regarded as a magic bullet. Research does indeed show a positive relationship between high levels of social capital and a range of indicators for citizen and community well-being, and even national socio-economic success (e.g. Halpern 2005; Putnam 2000). But the scope and implications of policy makers' attempts to intervene in social capital are far less clear. The chapter reviews the case for active intervention and, drawing on the experience of international agencies, national governments, and local authorities, critically examines a range of social capital strategies. Extending the 'capital' analogy, we look in turn at policies directed towards the creation, investment, redistribution, and even liquidation of social capital.

Finally, the chapter reflects on the paradoxical character of social capital interventions. Can policy makers influence relationships and values that have deep cultural and historical roots and are located in the intimate domains of family and community? Should they even try? We ask whether it is possible for public policy to stimulate the capacity of communities to help themselves without at the same time undermining their autonomy. In making social capital their target, do policy makers run the risk of killing the goose that laid the golden egg?

2. Social Capital as a Policy Resource

As a policy resource, concepts of social capital are significant in a number of arenas. An understanding of informal but highly institutionalized social relations that depend upon trust and reciprocity is central to the policy networks literature that emerged in the late 1970s. More recent developments in governance have put partnerships at centre stage, with institutional designers seeking actively to foster such relationships. The increased understanding of social capital as a policy resource is also evident in the growing attention paid to participatory governance and forms of co-production. In this section we explore policy makers' growing awareness of the significance of social capital and their efforts to harness it as a resource in the policy process.

Policy Networks: Bonding Social Capital

The literature on policy networks that first emerged in the late 1970s (Heclo 1978; Richardson and Jordan 1979) uses the metaphor of a network or community to explore the importance of informal links among multiple actors, located inside and outside formal government institutions, including politicians, civil servants, and representatives of 'insider' interest groups. In their most stable and exclusive form, 'policy communities' are not open to the general public, or to non-governmental actors in general, but institutionalize informal relationships through a process of resource exchange. The power/dependence framework that lies at the heart of network approaches assumes a degree of instrumentality in actors' behaviour: because no actor in a network has a monopoly of resources (information, staff, finance, and so on), actors enter into mutually beneficial relationships in order to achieve their policy goals (Rhodes 1985). Despite the instrumental foundations of networks, a distinctive feature is that relationships of trust and reciprocity lubricate collective action—in many cases overriding bureaucratic rules and formal accountabilities. Consensus is sustained on the basis of shared values and mutual resource dependence.

The policy network model seeks to uncover the de facto role of social capital in linking dispersed actors in voluntary and unofficial (but relatively stable) policy-making relationships, existing in the interstices of formal constitutional arrangements. The policy network approach reveals the role of *bonding social capital* within policy making, expressed through relatively closed social networks and common social identities. In developing an understanding of the informal relationships that underpin the policy process, the policy networks literature points to many of the characteristics which have later been associated with such bonding social capital. Rhodes and Marsh (1992: 23) list the characteristics of policy networks thus: 'a limited number of participants, frequent interaction, continuity, value consensus, resource dependence, positive-sum power games, and regulation of members'.

The network approach is an attempt to explain how policy making is sustained within a fragmented governance environment (accentuated by privatization and the new public management), and in a wider socio-economic context characterized by complexity and uncertainty. Rhodes and Marsh (1992: 200), however, also point to the democratic downside of policy making through networks: policy networks destroy political responsibility by shutting out the public; create privileged oligarchies; and are conservative in their impact because, for example, the rules of the game . . . favour established interests'. These negative effects of networks provide an early caution to policy makers intent on using social capital as a resource.

The Partnership Paradigm: Bridging Social Capital

The focus on the role of networks in policy making has gained further in importance in the context of 'real life' developments in the structure and functioning of governance and public service delivery. The 1980s and 1990s have seen the pursuit of 'network governance' (Stoker 2004) and the 'partnership paradigm' (Newman 2001) as overt policy goals. Government bureaucracies have been deliberately broken up through decentralization, privatization, contracting-out, and the creation of internal markets and non-elected public agencies. Multi-agency partnerships have been established in a search for 'collaborative advantage' (Huxham 1996), based upon the pooling of resources, risks, and rewards from the public, private, and voluntary sectors. These developments build further on the idea that informal relationships of trust and reciprocity can be exploited to improve policy.

Network or partnership approaches are seen as enabling flexibility and innovation in tackling 'wicked issues' that face government—complex and intransigent problems that cannot be tackled by one department or agency alone (Stewart 2000). They are also seen as promoting a 'new politics' in which different stakeholders are included in policy making (including business and community interests), in an environment in which traditional political processes increasingly fail to attract public interest (Lowndes and Sullivan 2004). Providing evidence of the spread of partnerships in Britain, Sullivan and Skelcher (2002: 24–7) calculate that there exist *at least* 5,500 individual partnership bodies at the local and regional level alone, and that they spend approximately £4.3 billion a year (2001/2).

For the first generation of theorists, 'network' was a metaphor to uncover hidden policy-making relationships. For today's researchers, the governance landscape is populated by thousands of officially sponsored partnerships and networks. Networks have enjoyed a normative rehabilitation within the discourse of policy making. Rather than being shadow arrangements (the dirty underbelly of the formal bureaucracy), networks are now celebrated as innovative, inclusive, and efficient institutional arrangements. Here, for example, is Tony Blair (1998) writing about the future of British local government:

> The days of the all-purpose (local) authority that planned and delivered everything are gone. They are finished. It is in partnership with others—public agencies, private companies, community groups and voluntary organisations—that local government's future lies. Local authorities will deliver some services but their distinctive leadership role will be to weave and knit together the contribution of the various local stakeholders.

In academic terms, the partnership paradigm contrasts networks with hierarchies and markets as modes of governance. According to the ideal type, actors in a network identify complementary interests and collective action is sustained through interdependent relationships based on trust, loyalty, and reciprocity. Conflicts are resolved within the network on the basis of 'diplomacy', underscored by members' reputational concerns. Thompson et al. (1991: 15) sum up the contrast thus: 'If it is price competition that is the central coordinating mechanism of the market and administrative orders that of hierarchies, then it is trust and cooperation that centrally articulates networks.' In this respect, the development of partnerships is an explicit attempt to cash in on the social capital that already exists in policy domains. As the World Bank (2002) puts it, 'networks and partnerships have the potential to accomplish more than the sum of their parts'.

Of course, partnerships on the ground do not always function in an ideal typical way. Having an organizational structure called a partnership does not in itself create trust or productive network relationships. The trend towards compulsory partnerships (a contradiction in terms?) in both welfare policy and international development programmes may exacerbate this fact. Can the social capital at the heart of network governance be created artificially, through protocols and mission statements, or can it only arise organically over time in the process of working together (Ostrom 1997: 60)?

Studies of local level partnerships in Britain have identified the social capital deficit at the heart of many of the new policy-making arrangements, linking this to the unequal power balance between technically 'equal' representatives and the marginalization of less powerful stakeholders (Lowndes and Sullivan 2004: 61; Sullivan and Skelcher 2002). There is a tendency for dominant partners to impose modes of decision making with which they are familiar and feel comfortable—hierarchical and market modes of governance often prevail within the partnership shell (Lowndes and Skelcher 1998). Bureaucratic routines, contractual relationships, and bargaining may dominate partnership working on the ground. Indeed, there is evidence that pre-existing 'organic' policy networks have been deliberately disrupted or supplanted through the establishment of 'official' partnerships under clearer central government supervision (Rhodes 1997). There is a real danger that imposed partnerships can undermine existing social capital, rather than exploit it.

The conventional narrative about changing modes of governance is too simplistic—from bureaucracy (1970s) to markets (1980s) and on to networks (1990s). In fact, the policy-making repertoire has simply expanded in institutional terms. Networks have achieved a new importance, but hierarchical and market arrangements remain an important part of the governance mix. As Rhodes (1997: 42) argues, the challenge for policy makers 'involves choosing not only between governing structures but also the mix of structures and strategies for managing them'.

While trust is not easy to create, it has a durability and replicability that makes it a particularly powerful resource for policy making. Even when networks are disbanded or fall into disuse, they leave 'traces' or 'islands' of social capital (Cropper 1996: 89; Lipnack and Stamp 1994: 196) that can be subsequently reactivated. In contrast to physical capital, social capital is expanded rather than depleted through use. Trust lowers the cost of communication and relationship building. Networks have the potential to expand social capital within policy making, opening up new channels of cooperation over which new patterns of trust develop (Lipnack and Stamp 1994: 199).

The partnership paradigm represents an official acknowledgement of the benefits of bringing social capital into policy making. Partnerships are regarded as overcoming the rigidities of hierarchical arrangements and the inequities of market solutions to the challenge of modern governance. Bringing together actors from different sectors with a view to pooling diverse resources and perspectives, the emphasis is upon the role of *bridging social capital* as a resource for innovation and flexibility.

Participatory Governance: Linking Social Capital

The promise of social capital as a resource lies not just in its contribution to more efficient and effective policy making and implementation, but also in its potential to facilitate democratic inclusion. Representatives of non-governmental bodies (interest groups, voluntary organizations, civic or community associations) are often involved in partnership governance but, as discussed above, may encounter problems in relation to their lack of resources (whether in terms of time, finance, skills, or confidence). Models of participatory governance specifically prioritize the inclusion of and involvement of ordinary citizens within policy making (co-governance) and/or public service delivery (co-production). Such approaches are inspired by normative models of direct democracy (and communitarian traditions) that privilege participatory decision making by consensus over traditional representative models (Held 1996: chapter 2). Here, social capital *within* communities and civil society is seen as a resource for more equitable policy making.

Co-production arrangements seek to 'involve the beneficiaries of a service in the delivery of the service itself' (Burns and Smith 2004). Citizens are seen not as passive 'clients' of welfare but as assets within the process of service production. Citizens are doing 'real work' in many policy areas—for instance, health promotion (e.g. preparing healthier meals), environmental sustainability (e.g. recycling), education (e.g. reading with children). Policy making can be redesigned to give a greater emphasis to co-production, as in the shift from institutionalized to community-based forms of care (whether in the case of mental illness, physical disability, or old age) (Barnes 1997). Policy makers' support for co-production could involve, for instance, investment in informal carers' groups or parents' networks, alongside more generic community capacity building (skills training, support to associations, provision of buildings). Co-production refers to a long-term relationship between organized groups of citizens and state (and other) agencies, in which both parties make a substantial resource contribution.

Co-production can help citizens to overcome existing problems in the delivery of public services, whether due to resourcing or inappropriate design. Better quality services may result, based upon new relationships of trust and mutuality which blur traditional user/provider distinctions and reorient the role of the professional vis-à-vis the citizen. In developing countries, co-production is often the 'default' option. As the World Bank (2002) argues, social capital 'can be used by the poor as a substitute for human and physical capital'. Hefty injections of social capital may be the only way in which basic services can be provided—as in rotating credit societies, informal justice systems, village school committees, or water management associations. Elinor Ostrom's investigation of the role of voluntary associations in 'governing the commons'—from the vineyards of California to the paddy fields of India—demonstrates the part played by social capital in preventing free riding and facilitating the sustainability of community assets. Ostrom includes in her definition of social capital not only 'positive' norms and networks but also the threat of sanctions for non-cooperative behaviour (Ostrom, Walker, and Gardner 1994).

Models of co-governance show how social capital can be a resource for involving citizens in wider processes of agenda setting and decision making, beyond a concern with the provision of specific services. According to Smith (2005: 56–7), co-governance differs from other 'participation' initiatives because it allows citizens 'to shape the priorities for a policy area and the scope of their participation in the process rather than simply responding to the proposals of public authorities'. Co-governance allows citizens 'decision-making authority or a high degree of influence on final decisions' (Smith 2005: 57). A much cited case of co-governance is that of participatory budgeting (PB), which originated in the city of Porto Alegre, Brazil, and is based upon popular assemblies at the neighbourhood and regional level. Up to 8.4 per cent of the population has been involved in the participatory cycle in any one year, with high levels of engagement among otherwise politically marginalized groups. Building on existing resources of social capital in the city, the PB process has actually expanded social capital through the development of new associations and the cultivation of trust and transparency within the policy process: it has also resulted in the net transfer of resources from wealthier to poorer parts of the city (Smith 2005: 66).

Heller (2001: 133) reserves the term 'participatory governance' to refer to 'subordinate group participation in authoritative resource allocation'. Fung and Wright (2001: 6) agree that participatory governance concerns not just engagement with the state but 'transformative democratic strategies' that advance values of 'egalitarian social justice, individual liberty combined with popular control over collective decisions, community and solidarity'. Those who do not normally have access to state structures use their social capital to transform the policy-making process which, in turn, expands the overall stock of social capital. The dilemmas of participatory governance lie in the burden it places upon poor and disadvantaged communities (the costs of involvement) and the possibilities it provides for rent seeking among more powerful citizen groups.

Models of participatory governance and co-production focus on the inclusion of marginalized groups in decision making and service delivery. These approaches seek to mobilize (and expand) *linking social capital* as a resource for policy making: that is, the productive social connections between individuals or groups in a hierarchical relationship, specifically the capacity afforded to marginal groups 'to leverage resources, ideas and information from formal institutions beyond the community' (Woolcock 2001).

It is clear that the success of participatory governance lies in long-term processes of institution building: the nurturing of grassroots associations in which citizens can form and express their preferences; the development of a mobilization infrastructure that can link different groups and issues; the building of managerial, organizational, and technical capacities within civil society; and the redirection of state capacities towards support and brokerage roles (Chhotray 2004). It is only within such an institutional environment that social capital could become the central, rather than peripheral, resource for policy making that proponents of participatory governance envisage.

3. Social Capital as a Policy Outcome: The Case for Intervention

As a policy resource, social capital has moved from being the hidden substructure of policy networks to become a major component of contemporary policy making. Whereas, in the policy network literature, social capital was primarily bonding in nature, creating exclusivity in the policy process, attempts to make the most of existing relationships within communities have shifted the focus to bridging and linking forms of social capital. Policy makers, attuned to the potential contribution that this resource can offer, have sought increasingly to exploit its riches.

An obvious problem with policies founded upon the exploitation of social capital is that, like other forms of capital, the resource is not equitably distributed. In addition, social capital—unlike finance capital—is not fungible: it cannot be easily switched from one use to another. Social capital is not a consistent resource that can be exploited through a single set of policy instruments. It is both variably distributed and complex in its accumulation. Policies that seek to use social capital, or are dependent upon its presence, need to be sensitive to these complexities and must address imbalances in its distribution. For this reason, attention has shifted away from just seeking to use social capital as a resource to a growing interest in shaping and developing social capital in different contexts.

More than simply addressing distributional inequities, however, policy makers have also become interested in the wider benefits that increased social capital can bring. From improving life expectancy to securing better governance, policy gains are associated with enhanced social capital. In this part of the chapter, we analyse the case for active government intervention in relation to social capital. Six aspects of the case are considered: improving life chances; achieving better governance; overcoming market failure; promoting equity; managing externalities; and stemming the overall decline of social capital.

Improving Life Chances

Social capital has come to the attention of policy makers because of its link with economic growth, health, crime, education, effective government, and even life satisfaction (as explored in previous chapters in this volume). As David Halpern (2005: 285), an adviser to Tony Blair, notes: 'social capital has now been shown to relate to nearly all of the key policy objectives of modern societies and government'. Evidence reported by the OECD (2001) demonstrates a consistent link between social capital and a wide range of policy benefits: improved health, reduced child abuse, and lower crime are all cited as policy gains, as are specific economic advantages that accrue. In this sense, there is an 'economic', 'health' or 'educational' case for intervention, but they all rest on essentially the same premiss. If social capital makes a significant difference to citizens' life chances, there is a case for intervention 'in so far as the state is expected to intervene in the distribution of resources more generally' (Field 2003: 121).

Social capital is regarded here as enabling the achievement of other policy goals—it is a policy output rather than a policy outcome. The case for intervention is based on the 'Heineken principle': social capital reaches the parts other resources cannot reach! Nowhere is this more true than in the developing world where the cultivation of bridging social capital offers the best prospect for improving living standards (World Bank 2002). Because social capital makes other things possible, governments should intervene to support and protect it.

Better Governance

The link between social capital and democracy is something of a special case in respect of the link to life chances: high performing governance institutions affect life chances across the board rather than in a specific policy area. The argument is that social capital underpins a healthy democracy, both nationally and locally. Citizens who engage with others are more likely to direct government towards better policies (through voting and other forms of participation), refrain from free riding, pay taxes, obey laws and pro-social conventions, and actively seek solutions to collective action problems (PIU 2002). Citizens who trust their leaders are less likely to pursue what the World Bank (2002) calls 'anti-government behaviors'.

Putnam's argument, based on a twenty-year comparative study of the Italian regions, is that: 'the most important factor in explaining good government is the degree to which social and political life in a region approximates the ideal of a civic community' (1993: 120). The argument goes like this. People learn to trust one another through face-to-face interaction in associations and informal social networks; norms of trust and reciprocity 'spill over' into society at large; a capacity is created for collective action in pursuit of shared goals; citizens expect, and representatives provide, competent and responsive government (Putnam 1995: 67). Putnam asserts that civic communities (and their 'uncivic' counterparts) are self-reinforcing: civic engagement and good government become locked together in a 'virtuous circle'—in contrast to a parallel 'vicious circle' of distrust, disorder, and poor government (1993: 117). The World Bank (2002) argues that social capital promotes government accountability and legitimacy, and can contribute to effective bureaucracy, within a wide variety of contexts. A comparative study of Germany, Sweden, and the US found a positive relationship between associational membership and political involvement across strong and weak states alike (Stolle and Rochon 1999: 205).

The case for intervention lies in the potential for public policy to sustain and add value to virtuous cycles or to disrupt (or at least not exacerbate) vicious cycles. Given their self-reinforcing nature, this is very difficult: such cycles have deep historical and cultural roots, and policy makers themselves are caught up inside them. Spain, for instance, continues to have low levels of social capital: installing democratic institutions does not '*per se* create social capital', which depends upon trust among citizens (Torcal and Montero 1999: 168). Policy interventions are perhaps best directed at existing 'islands of social capital', seeking to expand these through action to overcome market failure, promote equity, and manage the externalities of existing policy processes. But it is important that government does not 'crowd out' an autonomous role for civil society. The World Bank (2002) observes that 'the opening of political space in civil society is often a prerequisite for change' in both democratic and authoritarian systems.

Overcoming Market Failure

The 'public good' characteristics of social capital make it vulnerable to free riding and systematic underinvestment by rational individual actors

(Coleman 1994: 313). These characteristics highlight the potential benefits of government intervention, as in the analogous, but better established, cases of public infrastructure, research and development, or skills training (Halpern 2005: 285). Here social capital is regarded as a goal or outcome of policy in its own right, able to 'directly influence the well-being of the wider community' (Field 2003: 121). This is particularly true where other forms of capital are in short supply:

> We know that the poor use social capital—networks of trust and reciprocity—as an insurance mechanism which enables them to survive day-to-day when individually they can not: feed their children during a dry season; pay school fees; access formal credit services for their small enterprise; police their neighbourhood; or maintain a local well. (World Bank 2002)

Policies directed at community development or capacity building and volunteering and civic education are all relevant here. Investing in social capital as a public good reflects a departure from a deficit-model of disadvantage; it emphasizes the resources that communities already have and directs attention to the way in which external agencies interact with them (for instance through partnership working) (Field 2003: 123). In the economic field, investment in social capital may improve information flows and reduce transaction costs, thus promoting more effective competition (PIU 2002).

Promoting Equity

Social capital also has 'club good' characteristics that provide advantages to those who have access to it. Most notably, research shows that social capital is unevenly distributed in relation to social class. In Britain, for example, Hall (1999) argues that while the overall level of social capital is not declining, its skewed social distribution is becoming ever more extreme. Unequal access to the networks and contacts associated with social capital contributes to social exclusion. The OECD (2001: 5) argues that all policies affecting social capital have implications for its distribution and 'therefore for social exclusion and equity'. Government intervention can assist groups with less social capital to 'catch up' and share in the associated benefits (as in the regulation of health and education, for example) (Halpern 2005: 285). Even more importantly, it can take care not to compound existing inequalities in the distribution of social capital.

But there are two elements to the equity argument for intervention: policy may address the problem of *unequal access* to social capital or of *inequality of opportunity* in benefiting from social capital (PIU 2002). With social capital, the issue is not just what you've got, but what you do with it! Equity-focused interventions might target the use of social capital by advantaged groups to further entrench their interests: as in the inappropriate use of social connections—like Freemasonry—to gain employment in high office (Field 2003: 122) or the success of family or community-based cartels in business (Halpern 2005: 290 discusses the trucking industry in the US). As we will see in the next part of the chapter, capacity and opportunity to *invest* social capital in productive activities may also be socially stratified, and policy may target this (as in micro-credit initiatives in developing countries that allow women to harness the benefits of trust and social networks). Interventions may also be concerned with the type of social capital: communities may have access to plenty of bonding but need to develop bridging or linking in order to convert that social capital into a valuable commodity.

Managing Externalities

The implementation of public policy in many different areas has an impact on the level and distribution of social capital, even where this was not intended—and perhaps not even recognized. Social capital has always been part of the policy context, but the popularization of the concept has served to increase policy makers' awareness of the interaction between social capital and policy interventions. In some cases, as we have shown, social capital may be the specific target of policy, but in others a 'precautionary principle' may be applied. There is a case for ensuring that policy interventions do not *damage* stocks of social capital—just as they should not damage aspects of the environmental context (e.g. biodiversity) or the economic context (e.g. competitiveness).

In post-war Britain, for example, housing policy and urban redevelopment reeked havoc with the social capital of many working-class neighbourhoods. New ring roads split natural communities in half and high rise housing left 'neighbours' without a garden fence or a street corner across which to relate to one another. In a very physical form, the horizontal relationships so central to social capital formation were destroyed in favour of the anonymous verticality of the lift shaft, the stair well, and the underpass. Field (2003: 122) argues that post-war policy interventions led to the replacement of 'neighbourly working class connections' by 'inward looking enclaves with low aspirations'. A policy review by the Canadian government notes that: 'Seemingly unrelated government interventions (e.g. in areas of transportation, housing, etc.) might actually undermine the very social capital resources that other programs are counting on using' (Frank 2004: 5).

Addressing donor countries, Grootaert (1998) argues that development interventions should seek to 'identify existing pockets of social capital and take care not to destroy them'. In a more formal vein, Putnam (2000: 413) proposes a 'social capital impact assessment' for new policy programmes with the aim of drawing attention to unanticipated consequences. The Irish government has taken up this idea in the context of a commitment to 'mainstream' social capital across government programmes (NESF 2003).

Stemming Decline

The final case for intervention is based upon the claim that social capital is in decline (in the USA and other Anglo-Saxon countries at least). Evidence of a downward trend suggests that changing socio-economic conditions may have destabilized what Halpern (2005: 286) calls the 'delicate equilibrium' that sustained social capital in the past. Urgent remedial (possibly temporary or catalysing) intervention in traditionally organic processes is recommended. In the US case, Putnam considers the role played by changing work patterns, sex roles, and time use (particularly in relation to television) in undermining social capital. He claims that the decline in social capital is both statistically proven and evidenced in the fact that 'most Americans today feel vaguely and uncomfortably disconnected' (Putnam 2000: 402).

While acknowledging that there are 'no simple cures', Putnam (2000: 28) calls for 'a period of national deliberation and experimentation about how we can renew . . . civic engagement and social connectedness'. The erosion of social capital is not only a problem in the wealthy world (the flipside of individualism and materialism), but among the poor in developing countries where rapid urbanization has been accompanied by a 'lack of social fabric and . . . resulting climate of fear' (Field 2003: 123). Putnam (2000: 403) notes the importance of policies that target the *supply* of opportunities for civic engagement (e.g. community service programmes, neighbourhood governance structures) and the *demand* for those opportunities (e.g. civic education, part-time working, support to faith communities).

The good news is that social capital is a resource that is expanded rather than depleted through use. As the World Bank (2002) argues: 'Frequent interaction cultivates norms of reciprocity through which actors become more willing to assist one another; improved coordination and communication facilitate information sharing that increases mutual trust; successful cooperation encourages future collaborative efforts in new areas.' For policy makers, social capital is, therefore, 'a particularly worthwhile investment'.

4. The Forms of Intervention

In addition to the intellectual case for intervention, there is a very practical reason why policy makers should concern themselves with social capital: 'there is something that can be done' (Halpern 2005: 286). As Halpern goes on to comment: 'In the world of policymaking, a problem without a solution isn't really a policy issue'. Social capital is an appropriate policy target because it is associated with positive outcomes and can be influenced by policy makers. Indeed, as we saw above, policy initiatives in many areas have a de facto impact on social capital, which is better managed than ignored. Planned interventions take many forms. We distinguish between interventions at different points in the 'circuit' of social capital (to extend the capital analogy). Not all policy is directed at creating new social capital; sometimes policy aims to affect how it is invested or distributed; and occasionally the policy goal is the liquidation of social capital itself. All interventions are premissed upon the possibility of measuring stocks of social capital (as discussed more at length in Jan van Deth's chapter in this volume).

Creating Social Capital

Governments intervene directly in social capital. This was the case before the concept was popularized and before the phenomenon could be measured. As Halpern (2005: 29) explains:

> Governments heavily fund the voluntary sector, charities have tax exempt status, volunteering is in some way supported, education is subsidized, citizen education is taught in schools, and—perhaps most importantly of all—the state is heavily involved

in codifying and ultimately enforcing codes of trustworthy behaviour between people, especially through the legal system.

Given the arguments presented in section 3 of this chapter, there is a case for more strategic, focused, and urgent interventions to create or nurture social capital. Such an approach needs to be informed by an understanding of the different dimensions of social capital identified by Halpern (2005: 26):

- What *component* of social capital is targeted—norms, networks, or sanctions?
- At what *level*—individual, community, or nation?
- And of what *type*—bonding, bridging, or linking?

Figure 24.1 lists policy interventions according to the level or domain of intervention. Within each domain, there are examples of interventions that are norm based (citizen education), network based (mentoring and volunteering) and sanction based (dealing with potential offenders). Different interventions relate to different types of social capital: bonding (family and relationship support), bridging (business-community networks, dispersed social housing), and linking (neighbourhood governance, community service credit schemes).

The specific policy focus of intervention is also important. There are particular synergies between type of social capital and the substantive policy goal. For instance, economic growth is linked to the fostering of norm-based, bridging social capital at the macro-level; good health is linked to the cultivation of network-based, bonding social capital at the micro-level. Getting the social capital diagnosis wrong can lead to the wrong type of intervention and the absence of a positive outcome, perhaps even to perverse effects. To take three examples from a European/North American context:

- In traditional job training schemes, unemployed people only meet people like themselves. A defensive bonding social capital may be created but there is no opportunity to create the bridging ties that have been associated with successful job search (mentoring or placement initiatives may work better here).
- Interventions aimed at improving race relations may fail if they focus only on support to black and minority ethnic community associations. Bonding social capital may be fostered at the expense of norms and networks that bridge distinct communities (cross-cultural contact events or school-twinning may be needed too).
- Policies to promote neighbourhood-level governance will not ensure young people's participation if they invest only in youth facilities. The

Stimulating social capital at the individual or micro level:
Greater support for families and parents
Mentoring
New approaches to dealing with potential offenders
Volunteering
Relationship support

Stimulating social capital at the community or meso-level:
Neighbourhood governance
Community-asset-based welfare
Business-community networks
Community information networks
New approaches to planning and the built environment
Dispersing social housing
Employment networks
Reading and study groups

Stimulating social capital at the macro-level (city, region, nation):
Citizenship education and service learning
Community service credit schemes
Public discourse on morality
Facilitating mutual respect
Arts, culture, sports
Collective missions

Fig. 24.1 Policy interventions to create social capital

Source: Halpern 2005: chapter 9.

provision of meeting places and activities can promote bonding and bridging social capital among young people. But it won't create the linking social capital necessary for young people to put their case to community leaders and be accepted as partners in governance (a shadowing scheme or an e-enabled discussion forum could be useful).

In a developing country context, support for bonding social capital at the level of the family and household is vital to ensuring the daily survival of poor people. Building village-level associations—to support education and literacy, micro-finance and economic development, environmental and agricultural sustainability—enables the poor to put their social capital to work in more productive ways. Interventions that connect such associations to wider social networks and economic markets can help build forms of bridging and linking social capital that can facilitate a route out of poverty for marginalized communities. Key interventions at this level are often made by non-governmental organizations, with the support of national and local governments and donor countries. For example, group-based lending programmes in South India are working to facilitate the difficult transition from using local lending networks to formal financial services as village businesses expand; in Mexico, projects are underway to link farmers' groups with universities, government, and private institutions to develop and disseminate appropriate technology for rain-fed maize production (World Bank 2002).

Mapping the connections between policy and social capital is made more complicated by the fact that interventions do not impact in the same way upon on all sections of the community, given unequal social relationships (for instance, mothers may respond more eagerly than fathers to an invitation to join a parents' group). In addition, where social capital is created, it may not be used by citizens in the way envisaged by policy makers (e.g. parent governors may want to use their position to find out about how their own child is getting on at school). There is also a class of policy interventions which seek to liquidate rather than create social capital, due to the antisocial uses to which norms and networks may be put (e.g. curfews to prevent the gathering of large numbers of young people after dark). We consider these issues in the sections that follow.

Investing Social Capital

As we saw in section 3, social capital is valued by policy makers because of its association with other policy outcomes (e.g. good health or economic growth). Policy to create social capital may be insufficient to achieve such outcomes. Social capital may not be invested by citizens in the ways anticipated by policy makers: for instance, UK research shows that there is a closer relationship between social capital and health for women than men (Ginn and Arber 2002); while the association between social capital and formal political participation is stronger for men than women (Lowndes 2004). In harnessing the benefits of social capital, policy makers may seek to influence the *uses* to which existing social capital is put. As Canadian policy makers have noted: 'social capital's greatest potential is as a means to an end, rather than an end in itself' (Frank 2004: 4).

Policy can be designed in such a way as to valorize social capital and incentivize its mobilization in the direction of particular goals. For instance, Grootaert (1998) argues that development policy should seek to activate local-level social capital as a vehicle for the delivery of projects, through participatory design and implementation to the development of cross-sectoral partnerships. Russell Hardin (2006: 92) explains how pro-market reforms in Central Europe, China, and India have released the potential of previously latent social capital to catalyse and support entrepreneurial activity. In short, social capital either thrives or withers in the context of a public policy framework that 'governs who plays, the rules of the game, and acceptable outcomes' (Foley and Edwards 1996: 47). Indeed, in many ways this is more appropriate terrain for policy makers than seeking to intervene directly in the production of social capital. As social capital sceptics point out, it is hard for government to influence the size or distribution of social capital stocks because they are laid down over centuries and have their roots in the intimate domains of family and community.

To take the example of political participation, the institutional framework of government and politics is a crucial factor in determining whether social capital is mobilized for political purposes within a community (Lowndes and Wilson 2001; Maloney, Smith, and Stoker 2000). Social capital is not some sort of raw material for democracy that can be harvested in a predictable and straightforward manner in the service of democracy and good governance. Opportunities for (and constraints upon) associational activity are shaped by overarching constitutional and legal frameworks (for instance, freedom of speech) and by the structures and conventions of politics and public life. Municipal governments influence prospects for social capital through citizen education and the provision of community facilities; capacity building and the support of voluntary associations; the design of public places; approaches to community cohesion and social inclusion; and, crucially, through the openness and responsiveness of their own decision-making machinery. Research has shown that communities with similar levels of social capital (and similar socio-economic contexts) may exhibit very different levels of political participation depending upon institutional arrangements in local politics, public management, and civic infrastructure (Lowndes, Pratchett, and Stoker 2006).

There is no straightforward causal relationship between social capital and political involvement. Social capital does, or fails to do, its work in particular contexts. Whether social capital is mobilized as a political resource depends on a variety of factors other than the level and intensity of social capital itself. Policy makers need to understand the circumstances under which social capital becomes an actual, rather than a potential, resource for democracy. Three important questions arise. First, what are factors that trigger or suppress the mobilization of social capital in the service of a particular policy goal? Second, how do these factors work in relation to different groups in society? Third, in what ways can such factors be influenced by policy makers, in consultation with citizens and their representatives? These are important issues for policy makers seeking to nurture democracy and good governance. They are, perhaps, already well understood by those with a different agenda. The Chinese government, for example, recognized young people's social capital as a powerful resource within the pro-democracy movement and, over the last two decades, has developed policies aimed at redirecting social capital away from politics and towards investment in new entrepreneurial opportunities (Hardin 2006: 91–2).

Redistributing Social Capital

We have already acknowledged that social capital is not equally distributed. At any time, differences in the distribution of social capital can be a source of inequality but in a policy environment that explicitly seeks to exploit social capital such differences may also exacerbate inequalities. Redistribution of social capital, especially strategies aimed at strengthening bridges or links across communities, may be as important as those directed at its creation.

What counts as social capital is particularly problematic. In the literature there is a bias towards particular forms of community engagement which are presumed to breed patterns of trust and reciprocity: sports clubs, arts associations, and voluntary and community organizations, for example, are all included in the 'usual suspects'. The problem with this focus is that it favours formal modes of engagement (that can be more readily identified and compared) and leaves little space for the more informal networks that people may engage in. In so doing, it may also favour particular social groups (middle-class groups are often more likely to be engaged in such networks) or particular geographical areas (large urban areas may have more 'club' opportunities than rural ones). It may also lead to an ethnic or gender bias.

Care-based networks, which mostly involve women, have tended to be downplayed or even ignored in work on social capital in Europe and North America, which has focused on male-dominated social networks (in sport, politics, civic life, and business) (Lowndes 2004; O'Neill and Gidengil 2006). Development policy is often more sensitive to gender dynamics, given the importance of harnessing women's social capital in tackling health, education, and subsistence issues in poor communities. The World Bank (2002) observes that women's networks tend to be more informal than men's and differ in composition (although similar in size), involving more kin and fewer co-workers.

What counts as social capital matters not only because it highlights biases in measurement but because it points policy makers towards particular gaps or inequalities and away from others. Redistribution of social capital matters because it affects life chances. The case for intervention, therefore, is at least as strong in relation to redistribution as it is for its creation or investment. The challenge for redistribution, however, is to develop positive-sum strategies that, at the very least, do not reinforce existing biases or inequalities and which provide opportunity for marginalized groups to benefit from bridging or linking social capital. These opportunities can emerge in a range of contexts. As Paul Brigden (2006) shows, a shift in UK health policy towards community empowerment focused on issues of public health and premissed on creating stronger cross-community ties, has helped to reduce health inequalities. Ted Cantle (2005) makes similar claims in relation to social cohesion strategies in the UK and Europe, arguing that policy interventions should enable marginalized communities to build bridging social capital.

Liquidating Social Capital

Any discussion of social capital's benefits is not complete without at least some reference to its 'dark side' (cf. Field 2003, Putnam 2000 *inter alia*). Social capital can have negative effects for a number of reasons.

- First, and most obviously, the strong ties and patterns of loyalty associated with bonding social capital can easily be put to criminal or antisocial use. Drug cartels and other criminal gangs are often premissed upon strong bonds of this nature and depend upon them for ongoing 'success'. Less dramatically, kinship and ethnic networks may place heavy burdens on entrepreneurs, diverting resources away from potential investments and insulating firms from sources of innovation (World Bank 2002).
- Second, at a wider community level, bonding social capital may reinforce ethnic or faith-based identity, fostering sectarianism and preventing the

emergence of mutually beneficial cross-community collaboration. As the World Bank (2002) explains: 'the same strong ties which are needed for people to act together can also exclude non-members'. Examples of such barriers to bridging or linking social capital are manifest, from the sharp sectarian divisions of Northern Ireland to the more subtle forms of intolerance between ethnic groups that exist in many countries.

- Third, even where the negative effects of social capital may not be as stark as sectarianism, they may nevertheless reinforce patterns of behaviour that militate against broader public policy. For example, strong community ties may reinforce unhealthy life styles in relation to diet, alcohol consumption, or smoking. At the other end of the spectrum, high concentrations of social capital among political and bureaucratic elites can breed corruption and undermine good governance (World Bank 2002).

For policy makers, therefore, the dark side of social capital is important not only because they may want to discourage the exclusivity or narrowness that some forms of bonding social capital may foster, but also because they may want to take steps to reduce its impact. The negative consequences of bonding social capital may actually work to inhibit the effectiveness of some policies. High social capital may actually impede the social or behavioural change that policies set out to achieve, if it is associated with—for instance—low educational aspirations or hostility to government intervention in general (Halpern and Bates 2004: 28). Bonding social capital may also serve to reinforce racist or sexist stereotypes and foster negative assumptions about 'out-group' roles and identities. Policies that are directed at changing the behaviour of citizens in key lifestyle choices have to address not only the attitudes and behaviour of individuals but also the potentially negative and recalcitrant effects of their social capital networks.

Negative consequences for public policy are generally associated with social capital in its bonding form. The goal of policy makers, therefore, may be to neutralize such effects by stimulating bridging or linking social capital that is able to cut across relatively closed communities. In this context, for example, the Council of Europe (2004) has made a number of recommendations on how long-term migrant workers (denizens) can be successfully integrated into the political life of the communities in which they reside. However, as Field (2003: 88) recognizes, bridging social capital can also have negative effects, creating oligarchic connections where democratic norms do not prevail. It is not sufficient, therefore, for policy makers to look for simple bridging solutions to complex social capital problems. Initiatives must be focused on developing bridges and links which connect existing stocks of social capital but which do not create perverse outcomes on policy.

5. The Case Against Intervention

We have alluded throughout this chapter to the dilemmas involved for policy-makers seeking to harness the power of social capital, as either a resource or an outcome of public policy. Here we review more systematically the arguments against policy interventions in social capital, organizing them in relation to their distinct intellectual origins.

Neo-liberals have argued that state efforts to shape sociability and social connections are an invasion into personal and private domains and are antithetical to individual freedom and liberty. While recognizing the market failure arguments for state investment in social capital, James Coleman (1994) was nervous about the possibility of state initiatives displacing (or 'crowding out') the voluntary, organic efforts of individuals. For neo-liberals, public policy has no place interfering in social relationships within the family, neighbourhood, or community, or in the uses that such personal contacts and connections are put. Fukuyama (2001: 18) argues that excessive state intervention 'can have a serious negative impact on social capital'. Neo-liberals like Fukuyama propose that policy initiatives should be restricted to those concerned with the liquidation of perverse forms of social capital—those networks and cartels that impede the liberty of others (particularly in the economic domain, e.g. to protect free trade and open competition). If the state provides incentives to build positive social capital (support to volunteers, honoraria to community activists), it runs the risk of substituting self-interest for the altruistic motivations that have traditionally lain behind these activities. This may affect both the quality and sustainability of the relationships involved.

Social capital policies can be seen as illustrative of a 'new paternalism' (Mead 1997). There is a paradox at the heart of 'third way' policies: state intervention in the intimate domains of private and community life is justified on the grounds that it will ultimately *reduce* dependence on the state by changing personal behaviour and social relationships (e.g. healthier lifestyles, environmental awareness, more educated and supported parents) (Halpern 2005: 70). Can public policy show citizens how to be more community-minded and self-sufficient, or is this something that must develop organically?

Neo-marxists have focused on the inequalities inherent in the social capital analysis. They argue that policy makers should recognize that all capital is 'social' in that it involves social relationships between unequal actors. From a marxist perspective, 'capital is not a thing at all, but a social relation which appears in the form of a thing' (Bottomore 1983: 60). Ben Fine (2001: 30) observes that social capital has provided a handy 'dumping ground' for political scientists of a broadly rational choice persuasion. The concept allows such scholars to acknowledge the importance of 'social factors' without accepting that all economic and political behaviour is shaped by (unequal) social relationships. The social capital policy discourse is 'deliberately used to distract attention from the underlying materialist and structuralist causes of inequality' and is located firmly 'within the parameters of capitalist relations, downplaying the conflicts of interest that characterize these relations' (Field 2003: 118). From this point of view, the only legitimate policy interventions are in the area of redistribution.

Social capital policies can be seen as part of an elaborate 'papering over' of cracks in welfare provision within developed countries, and of an apologia for the status quo in the developing world. Community self-help is seen as an alternative to state provision, and the inequalities involved in this are highlighted. Such self-help is both easier for more wealthy people (given their resources and connections) and less important to them (given their access to market alternatives). Do social capital strategies simply ask the poor to work harder and take more responsibility—whether in the co-production of public services, the governance of their communities, or the maintenance of community well-being?

Feminists have pointed to the particular implications of social capital policies for women, who tend to be the informal carers and network brokers at the community level. Social capital can tie people down, into particular (unequal) roles, rather than empower them. Molyneux (2002) refers to the 'silences of social capital' with respect to gender relations. Grenier and Wright (2001) argue that the distribution of social capital should not be regarded as 'a niggling concern' but as 'the main story'. Given that social capital is unevenly distributed, policy interventions to nurture or mobilize existing stocks of social capital are likely to compound these inequalities and the skewed distribution of the associated benefits. Rather than celebrating social capital, would welfare policy (and international development programmes) be better directed towards the liberation of poor communities from a reliance on self-help and informal sources of support (with their attendant risks of patronage and insecurity), and the escape of women from traditional unpaid and undervalued caring roles?

Post-modernists have expressed scepticism about social capital policies which they see as based on an outmoded meta-narrative of community or society that makes a fetish of traditional collectivities and social relationships. This is out of kilter with empirical reality and fails to recognize the nature of individuals' complex, shifting, and multifaceted relationships. In addition, Putnam's 'golden age' of social capital involves a rewriting of past practices. Drawing attention to their gendered and ethnically specific nature, Arneil (2006) points to the exclusive and divisive nature of traditional forms of association. The religious imagery evoked in Putnam's (2000: 409) call for a 'Great Awakening' reinforces a social capital meta-narrative that crowds out multiple meanings and interpretations.

Post-modernists oppose interventions to bolster social capital on the grounds that they assume a particular view of the 'good life', based upon tight community ties and fixed social identities. The social capital policy agenda has little to say about the demands 'of negotiating a reflexive life … in the absence of fixed coordinates'; in a secular, individualized and less transparent world, 'habit and conformity provide poor guides to the future' (Field 2003: 145). In such a social context, do the social capital exhortations of policy makers create unrealistic expectations and ultimately disillusion for people, especially disadvantaged people? The post-modernist critique is further bolstered by the scepticism of the social capital faithful in new forms of connection and community, which may not be geographically based or reliant upon face-to-face contact (issue-based campaigns, social movements, electronic communities) (Putnam 2000: chapter 9).

There is also a pragmatic case against intervening in social capital on the grounds that it is simply too difficult:

- First there is the problem of identification and measurement. Social capital is intangible, manifested in norms and relationships. It is, as Foley and Edwards (1999) explain, a differentiated phenomenon, which varies in its components, its degree of liquidity, and according to the context in which it is found. Can policy makers recognize social capital when they see it? How can they assess the impact of their interventions on social capital?

- Second, agents of the state cannot influence social capital directly—they rely upon civil society intermediaries who may act unpredictably. Moreover, their interaction with policy makers can even lead to a change in their character and purpose. State sponsorship of voluntary and community bodies can actually suppress their capacity to create social capital, as they become more professionalized and their focus shifts from sociability to service delivery (Lowndes and Wilson 2001: 641).
- Third, research shows that current patterns of social capital have been laid down over centuries (Putnam 1993). Governments may be unrealistically optimistic to think that they can create social capital—or stem its decline—through a particular project or even in the context of a three-, five-, or even ten-year policy programme. Dahrendorf has estimated that it will take a minimum of two generations to establish an effective civil society in Central and Eastern Europe (cited in Field 2003: 120–1).

6. Conclusion

It is probably too late to ask whether policy makers should seek to use or intervene in social capital. As we have shown in this chapter, public policy has increasingly sought to use social capital as a resource, whether in providing a lubricant for collective action within policy networks or, in a more explicit sense, in the development of partnership and co-governance arrangements. As attention has shifted towards social capital as a policy outcome, policies have also become more sensitive to the idea that social capital not only affects economic or political performance in a general sense, but that it can also mediate the success of targeted policy programmes (e.g. in health, education, or crime). This increasing awareness has led to new interventions designed to increase stocks of social capital, or to influence the uses to which it is put, and by whom.

In this chapter we have reviewed the different roles that social capital can play in public policy. Our message is more than simply one of complexity. If policy makers are to exploit, benefit from, or, at least, not destroy social capital, they need to develop more nuanced understandings. At the very least, policies need to respect social capital both for what it already does in the policy domain and the ways in which it might contribute to (or stand in the way of) future policy. Policy makers need also to distinguish between bonding, bridging, and linking social capital and to understand the subtle ways in which these different forms may influence, and be influenced by, public policy. The straightforward application of standard social capital measures is unlikely to be as successful as a qualitative, context-specific assessment.

Insofar as social capital has always existed, public policies have always benefited to some extent from its advantages. Similarly, policies have inevitably been checked or impeded by social capital in other areas. Today the deliberate turn to social capital places not only a new emphasis upon its value and consequences for policy, but also creates new responsibilities for policy makers. Public policy increasingly seeks to create social capital where it does not exist, or where it is only partial. Moreover, this needs to be of the right type: not only bridging or linking social capital but also bonding social capital where it is in short supply. Redistribution is also important, in order to ensure that the benefits of social capital are widely available. However, policy should not rule out deliberate strategies to liquidate, or at least dilute, the negative effects of bonding social capital. This agenda for policy makers is not an easy one but the prize is surely worth the effort.

Note

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