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Social Capital and Economic Development: Possible Links and the Implications for Economic Policy

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SOCIAL CAPITAL AND ECONOMIC DEVELOPMENT
Possible Links and the Implications for Economic Policy

A research project submitted in partial fulfillment
of the requirements for the degree of
Master of Science
in Social and Applied Economics.

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ABSTRACT


This research project was carried out with three principle objectives. First, I provide a primer investigation of what social capital means and examine its possible relevance in the discipline of economics and I highlight some of the numerous conceptual debates surrounding the theory. Secondly, I shed light on the historical progression and time line for the implications of social capital. That is, where we were in the past, where we are at the current time and where we (as economists) are possibly heading with this into the future. Lastly, I highlight some of the major challenges in applying an empirical methodology to social capital, without having to carry out any new empirical research work — an intensive and oftentimes extensive and time consuming undertaking — which is not likely to add much to this project. This report is a primer on social capital and its links to economics and development policy. The attempt is to simply and effectively isolate issues of past debate and the current major successes and failures in the attempt to integrate social capital into meaningful policy. More importantly, this report explores possible answers to the question: Does social capital have a contribution to make in the current efforts at formulating economic policies to address poverty?
# TABLE OF CONTENTS

1. DEVELOPMENT POLICY-What Is Missing? .................................................. 1

2. CULTURE AND ECONOMICS: THE IMPLICATIONS FOR SOCIAL CAPITAL ......................... 10

3. REVIEW OF THE CONCEPTUAL FRAMEWORK FOR SOCIAL CAPITAL. 15
   - Historical Perspective ................................................................................ 15
   - The Conceptual Debate ............................................................................. 17
     What is Social Capital? ............................................................................ 17
     The Dimensions of Social Capital ............................................................. 21
   - Is Social Capital really a form of Capital? ................................................. 28

4. OVERVIEW OF THE EMPIRICAL APPROACHES TO SOCIAL CAPITAL
   THEORY ....................................................................................................... 32
   - Micro level measurements of social capital ............................................ 33
   - Macro level measurements of social capital .......................................... 35
   - The Social Capital Initiative ................................................................. 40

5. CONCLUSIONS .............................................................................................. 45

BIBLIOGRAPHY ............................................................................................... 54
LIST OF TABLES

Table

1  ‘Balance sheet’ of human development in the last third of the twentieth century….7

2  The Dimensions of Social Capital…………………………………………………….26

3  Indicators of Social Capital (Micro, Meso and Macro-level)…………………..37
PREFACE

Social capital is currently one of the most debated topics in development economics. This research paper examines the intellectual development of the concept and the resulting implications it may have (or has) for economic development policy. The paper is divided into five chapters. In chapter one, I briefly examine definitions to the more general terms that are used repeatedly throughout the paper and in what context these terms are to be used while discussing social capital. The second chapter introduces culture and how it is important in the study of economics and what the possible link is with social capital. Chapter three explores the historical development and conceptual issues surrounding social capital. In chapter four I review the most compelling efforts that have been made so far in designing an empirical basis for studying social capital. Chapter five, the last chapter, contains my conclusions.
DEDICATION

For my wife Salline whose patience, love, and understanding are invaluable; and for my mother, Anne whose support and kind words I will forever cherish.
1. DEVELOPMENT POLICY – What Is Missing?

“The idea of development stands like a ruin in the intellectual landscape.
Delusion and disappointment, failures and crime have been the steady companions of economic development and they tell a common story: it did not work.” (Sachs, Wolfgang 1992; p.1)

The claim of virtually all the mainstream\(^1\) players in development economics — bilateral and multilateral agencies, governments, private consultants and scholars — is that the principal objective of their development interventions is to reduce poverty and improve the standards of living for all. This has been their argument for decades and yet the statement at the top of this page remains unfortunately true. Of the failures suggested in the quote, poverty continues to be the one of the most glaring problems of human existence to date. Part of the problem, many social scientists — including economists — now believe has to do with the very concept of economic development and how it has been adopted in various development programs. Despite the optimism and confidence that the mainstream players constantly portray through various mediums about poverty and development planning, there have been challenges (especially recently) to this optimism. Development planning in particular has faced harsh criticism.

\(^{1}\) Neoclassical economists currently dominate mainstream economics. This school of thought regards economics as a scientific (positive) study of the allocation of scarce resources; the theory of the firm stresses the importance of profit maximization while most neoclassical economists also share the notion that human beings are both rational and self-interested.
Such criticism has risen largely out of the recognition that much development planning has failed to reduce the increasing inequalities in income and wealth or to alleviate the sufferings of the huge masses in poverty. In response, scholars are now re-evaluating the field of development economics and are developing some new ways of thinking about development planning. It is under this ‘reform’ environment that the concept of social capital is gaining recognition. Before I specifically examine the concept of social capital, it is important to start off by briefly defining the meanings of both poverty and economic development, and specifically how these relate to social capital.

The concept of poverty involves three discussions: First is the question of global poverty when compared to individual poverty. The concept of global poverty has led to the classification of nation states into rich and poor. The reality is that poverty’s socio-economic effects are felt at the individual or at the household level. Secondly, there is the issue of defining poverty in monetary terms, which tends to classify predominantly subsistence economies as poor when this may not necessarily be the case. Finally, measuring poverty in absolute versus relative terms creates a contradiction where some individuals in a rich society are classified as poor in relative terms, but are not poor in absolute terms. The relative measurement of poverty then adds a cultural aspect to the notion of poverty.

For the purposes of discussing social capital, the most useful definition of poverty is where the individual measures of wealth incorporate the notion of relative poverty. To incorporate both a benchmark criteria (individual wealth/poverty) and a cultural aspect
(relative wealth/poverty), The World Bank uses different sets of figures; US$14.40 per person per day (in 1985 PPP dollars) is used to calculate the numbers in poverty in industrialized countries, US$4 per person per day in the so-called transition economies — those that are emerging from poverty status but are not considered fully industrialized — and US$1 per person per day in the least developed nations. These are the classifications of poverty to which I will be referring when using the term in my paper.

To understand development planning, it is important to be clear as to what the term development really means in economics. Defining ‘development’ is a challenge. As a socio-economic process, development implies a change to a superior condition, or ‘progress’ for a given society, but it is notoriously difficult to define and persistently remains the subject of controversy and disagreement among development practitioners and scholars. Thankfully, it is possible to quantify visions of what development may constitute. Thomas, Alan and Tim Allen (2000) identify two main visions of development and a third, which borrows on aspects of the two. There exists a fourth, post development school, whose vision is completely at variance with all the other visions of development.

The first vision of development is mostly concerned with material well being such as physical wealth-creation and distribution for the society as a whole; this is usually measured by the quantity and variety of goods and services available in the economy. Development in this case implies continued growth in economic terms — high and ever increasing growth in national and individual income. This is the definition usually alluded to when most mainstream economists speak of development and is mostly
associated with greater industrialization. The questions of individual poverty are not a fundamental concern under this vision of development. Multinational corporations are leading advocates for this vision. The second meaning of development is concerned mostly with social and environmental factors and is generally referred to as 'people centered' development. This vision of development has as its basis, the needs of humans — food, means of livelihood, equality, justice, education etc and the safety of the environment for future posterity. The 'people-centered' approach rejects the first vision of development — that has its origins during the industrial revolution where common people were pushed off the land and turned into paid laborers and employees dependent on the rich and those more powerful than themselves — as exploitative and not beneficial to the common people. The 'people-centered' vision values people’s cultural and spiritual respect for natural systems such as the earth and rejects the kind of economic freedom — free trade and free markets — espoused by the proponents of the first vision. The most visible activists for this vision are Environmentalists and Trade Unions. The third meaning of development is essentially a combination of aspects of the first two, where the vision is one of ameliorating the negative effects of 'pure' industrialization and toning down some of the idealistic assumptions of 'people-centered' development. A central tenet under this interpretation of development is the attempt to eradicate poverty, while accepting that modern industrial systems are a global reality. This third meaning of economic and human development is the most useful for discussing social capital. The United Nations (U.N.) agencies’ interpretation of development is closest to this third vision of development
The fourth meaning of development, attributed to the post development school, regards the existing concepts and visions of development as total failures and pursuits in which economists and others should stop wasting their time. This school argues that though positive social change (progress) is part of human experience, the analysis of the ways in which people create, distribute and conceptualize wealth is not a useful way of examining the idea of human development. The process and problems of development require at the very least, some concerted action, but the post development school unfortunately does not provide any framework for this, they do however point out some major weaknesses that have characterized economic development initiatives in the recent past, some of which I have referred to and will be elaborating in more detail as we go further into this paper.

As already suggested, the U.N’s conceptualization of development is the most useful for examining social capital. The United Nations Development Program (UNDP) in its 1998 report, (UNDP 1998), drew a ‘balance sheet’ of human development in the last third of the twentieth century (See Table 1). The table suggests that there have been some great strides made in human and economic development. Nevertheless, the table also shows some very serious setbacks that have accompanied this ‘progress’. Although all the development indicators are important and are worth looking into individually and possibly collectively, the overwhelming development priority is the poverty question. In this global economic age, the differences in wealth highlighted in the table represent possibly the single most glaring weakness in economic development prescriptions. For instance close to one third of all humans live below the poverty line while amazingly the three richest people on the same earth had assets in 1998 that exceeded the Gross
Domestic Product of forty-eight Least Developed Nations. These glaring poverty statistics suggest the great need to reassess economic development policy both at the local and at the macro-level with the aim of addressing the appalling poverty situation. What is required is a clear understanding of the forms and the explanations for development policy's failures so that we can begin to resolve the problems, rethink development strategies and look to the future. Most important is the need to explore new ideas about what the process of development constitutes and the relationship between theory and practice. The challenge is to find out how for instance, cultural norms, rules or anthropological concepts can be defined, structured and integrated into economic development theory and policy both at the micro and macro level. It is in this environment of the need for change, the need to understand the role of culture in economics, that the concept of social capital has gained growing prominence in recent years.
Table 1

'Balance sheet' of human development in the last third of the twentieth century

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Development</th>
<th>Deprivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>Over the last 36 years life expectancy at birth for developing countries has increased (by over a third) from 46 to 62 years.</td>
<td>In 1997 31 million people were living with HIV up from 22.3 million the year before.</td>
</tr>
<tr>
<td>Children</td>
<td>Nearly 90% of one-year olds in developing countries are now immunized against Tuberculosis.</td>
<td>109-milllion primary school-age children (22%)are out of school.</td>
</tr>
<tr>
<td>Education</td>
<td>Between 1970 and 1995 the adult literacy rate in developing countries increased from 48% to 70%</td>
<td>885million adults(age15 +) worldwide are illiterate.</td>
</tr>
<tr>
<td>Women</td>
<td>Between 1970 and 1992 the female Education enrolment ratio in developing Countries rose form 38% to 68%.</td>
<td>6-8hrs per day spent by rural women in fetching fuel wood and water.</td>
</tr>
</tbody>
</table>
Food and Nutrition

Between 1970 and 1992 the index of daily calorie supply per capita in the South increased from 71 to 82 (i.e. reached 85% of the rate in the North)

841 Million people worldwide are malnourished.

Income And Poverty

From 1960 to 1995 the average GDP per capita for all developing countries rose from $330 to $890 (in 1987 US dollars).

The three richest people in the world have assets that exceed the combined GDP of the 48 Least developed countries.

Global energy consumption is growing Faster than population.

1.3 Billion people in the developing countries live on less than $1 per day; 32% in the transition economies on less than $4 per day and 11% in industrial countries on less than $14.40 per day.
Politics  In the 1990’s two-third’s of the world’s people live under fairly democratic regimes.

And  13.2 million people worldwide are refugees.

Conflict  Between 1996 and 1997 alone the number of conflicts worldwide fell from 21 to 18.

Conflict  In 1994 100,000 land mines were removed but an additional 2 million were planted.

2. ECONOMICS AND CULTURE: THE IMPLICATIONS FOR SOCIAL CAPITAL

The influence of culture on economic development has long been recognized. Weber, (1930) in his famous work on culture in economics, defined a community’s culture to constitute its shared dispositions, values, and beliefs. The implications for culture in economics have nevertheless long been resisted by the mainstream. Current mainstream economic policies are primarily the end products of gradually refined ideas that originated from the thoughts of a somewhat restricted group of economists living during the industrial revolution in Great Britain and continental Europe. Adam Smith, David Ricardo and other leading philosopher/economists living in Great Britain, had in their entire lifetimes experienced only limited cultural basis from which they had to base their economic prescriptions2. Mainstream (neo-classical) economic theories, revolving around utility and profit maximization and the notions of rational analysis and static equilibrium with an emphasis on mathematical modeling, have traditionally been very skeptical of the more dynamic and difficult to model attributes in economics. However, there is now a growing trend towards change in the mainstream about the need to incorporate a cultural dimension to economic theory. There exists at least two ‘intellectual justifications’ that the mainstream has proposed for its growing acceptance of culture in economics. The first is the neo-classical rational choice theory, developed from the classical rational

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2 It is important to emphasize that limited cultural exposure on the part of both policy makers and implementers is not itself unusual or unexpected. Nevertheless, it is my conviction that it should become a source of concern for all economists and social scientists in general, when theories formed from limited cultural backgrounds are translated into policy and then applied in different environments with an almost total disregard of the recipients’ cultural values and traditions.
choice theory. Classical rational choice theory interprets the economic process as driven foremost by

"..the decisions of equally endowed, self-endowed, self-maximizing individuals subscribing to principles of economic rationality."

(Turner, Jonathan 1991; p.354)

The theory suggests that as rational human beings we simply cannot make optimal decisions at every point in day-to-day life. Classical rational choice theorists suggest that it is in fact ‘rational’ for human beings to impose ‘simplifying rules’ on their behavior even if these rules do not always result in a self-maximizing option. These rules can be culture, norms, institutions or traditions. The neo-classical rational choice theory simply builds on the foundations of the classical school by adding a mathematical dimension (transaction costs) to the classical version. The neo-classical rational choice theory recognizes that reaching ‘optimal’ decisions in every circumstance is difficult to achieve because decision-making is in itself costly (high transaction costs) and often requires information that is unavailable or faulty. Turner (1991) suggests that the recognition of culture (including norms and values) is in this case a rational process that minimizes the transaction costs in the development process. Simply put, rational choice theory has been adopted to explain culture in a methodology that may then be acceptable to mainstream economics.
Second, the proponents of absorbing culture into mainstream economics have also turned to game theory to explain their recent acceptance of the cultural dimensions in economics. Game theory — a large and well-developed branch of economics — seeks to explain how social norms or rules come about, highlights the problems of cooperation and explores specific strategies that alter the payoffs of players (economic agents). The mathematics behind game theory simply seeks to understand in a formal way the strategies by which people can move from selfish interests to cooperative norms. The Prisoners dilemma is the most widely known example of game theory and starts from the idea that all are born into a world as isolated individuals with selfish desires or preferences, not with social obligations to one another. However, game theorists suggest that we can satisfy those preferences more effectively if we cooperate with other people and end up negotiating cooperative (social) norms of interactions. That is, the way human beings acquire social norms is an explicit process that can provide a useful framework for formulating economic policy.

Mainstream economists, as we have already seen, have traditionally ignored the cultural dimension in economics, especially in terms of policy prescriptions. Nevertheless, the talk of culture in economics has inevitably led over the years at attempts to explain why it is that some certain groups of people (with distinct cultures) seem to achieve and sustain higher levels of economic performance than do others. Institutionalism is the most lucid school of thought in this area. The institutionalist school of economics can be traced as far back as Veblen, Thorstein (1890) and is especially associated with (John) Common’s work in the period 1890 to 1925, and to latter day institutionalists such as Olson, Mancur
(1982) and North, Douglass (1990). Institutionalists insist that it is necessary to understand the structures and processes that make up economic life and that people are both products and producers of culture. Hodgson, Geoffrey (2000) refers to this as ‘upward and downward causation’. Institutionalists have in particular, been at the forefront in insisting that economics should not be studied with the intention of reaching ‘rigid’ equilibriums, such as those put forward by price theory or general equilibrium. North’s (1990) work is the best developed on the relationship between institutions (culture) and economic performance. He suggests that institutions can reduce the transaction costs associated with the development process and that ceteris paribus, those societies with well-developed institutional structures tend to develop faster than those without. North’s theory of institutions combines a theory of human behavior with a theory of costs of transacting. He suggests that

“The costliness of information [sharing] is the key to the costs of transacting, which in turn consists of the costs of ... policing and enforcing agreements.” (North, Douglass; 1990 p.27)

He further suggests that the costs and methods of policing and enforcement are the sources of social, political and economic institutions that in turn constitute the main fabric of any given society’s culture. North suggests that institutions are the key in understanding the paths and rates of economic progress. It is here that North’s views are at variance with most mainstream economists who insist that the free market is the key to development and that the same market (not institutions) can be relied upon to clear all
information asymmetries. Despite the articulate work of institutionalists such as North, institutionalism, especially old institutionalism, has for all intents and purposes been sidelined to the periphery, especially in terms of policy making. The heterodox nature of this school of thought, which breaks away from the traditional market and modeling approaches to economics, may explain why institutionalism does not sit too well with neo-classical economists.

Capital, in the traditional sense refers to natural, human, and physical capital. In fact, human capital is a later addition to the even narrower conceptualization of capital that existed in classical economics discourse, which summed up the components of capital simply as labor and land. Social capital proponents suggest that a further expansion of the definitional boundaries of capital is required in order to accommodate the cultural implications on economic development. Secondly, the ‘social’ in social capital implies that there exists some sort of cultural (shared values, norms or traditions) dimension to the concept and therefore there is an innate assumption that the mainstream’s gradual acceptance of the cultural dimensions in economics (by incorporating game theory and rational choice) may augur well for the acceptance of social capital in mainstream economics. In the next chapter, I attempt to define social capital, review the progression of the idea and its conceptual constructs through time, and attempt to illustrate how the emergence of the concept is a venture in reconciling mainstream economics’ traditional reluctance in embracing culture.

3 The big question that this notion has consistently failed to answer is; why do we have persistence poverty and failures in the market system and why does this situation seem especially chronic in some particular economies?
3. REVIEW OF THE CONCEPTUAL FRAMEWORK FOR
SOCIAL CAPITAL

Historical Perspective

The most widely circulated definition of social capital suggests that the concept refers to the norms and rules of social interactions that govern and facilitate cooperative actions, and the institutions in which they are embedded. This definition of social capital illustrates the close interplay between the concept of social capital and the general idea of culture in economics. The notion that social relations, networks, norms and values matter in the functioning and development of society has long been present in economics, sociology, anthropology and political science literature. Marshall, Alfred (1876) was the first documented economist to have employed the actual words ‘social capital.’ Nevertheless, his use of the words was for a different purpose compared to its mainstream contemporary use. The idea that norms of cooperation were needed to guide the ‘invisible hand’ of market transactions can be traced further back to two of Scottish enlightenment’s great philosopher / economists — David Hume and Adam Smith. Hume (1751) argued that appropriate moral behavior, or what he called ‘moral sense’ or ‘sympathy’, would emerge of its own accord to support new forms of economic activity. Smith (1759) noted in The Theory of Moral Sentiments that the free market did indeed require certain moral sensibilities and that there were serious limits to the free market’s self-regulating capacity and its ability to produce equitable welfare-enhancing outcomes.
The role of norms and institutions in explaining economic life was suppressed for much of the 19th century as utilitarians and classical political economists elected to take economics down the road pioneered by Smith’s (1776) *An Inquiry into the Wealth of Nations* rather than *The Theory of Moral Sentiments*. The turn of the 20th century saw a rebirth in the writings on norms and culture in economics. Some initial insights into the origins and effects of social capital obtained from classical sociological literature at the turn of the last century have been outlined by Portes, Alesandro and Sensenbrenner (1992) who identify four different definitions (or what they refer to as ‘types’) of social capital: bounded solidarity, value introjections, enforceable trust and reciprocity transactions. The four definitions correspond to four major theoretical traditions of social capital that are each associated respectively with the works of the following authors: Marx, Karl and Engels, Freidrich (1848), Durkheim, Emile (1893), Weber, Max (1930 and 1947) and Simmel, Georg (1955). Woolcock, Michael (1998) attributes the first use of social capital in its contemporary form to Jacobs, Jane (1961), although he contends that scattered use of the term can be traced as far back as 1920 to Hanifan, Lynda Judson’s (1920) *The Community Center*. Bourdieu, Pierre’s (1980) work draws on the Marxist tradition of systematic thinking. However his subsequent work in 1986, *The forms of Social Capital*, has had more influence on the evolution of the concept especially in sociology and in education.

Coleman (1990) describes social capital by its function and is credited with being the first to accommodate a more rational choice analysis to the concept. Putnam (1993a) attached
the concept to his comparative study of local governments in Italy. In this seminal study, he seeks to explain the differences in institutional performance and economic performance between southern Italy and northern Italy. He traces these to differences in patterns of civic engagement that extend back to the early Middle Ages. The study argues that institutional performance in any region is relevant to the degree of ‘civic community’ that exists there.

Most interpretations of social capital prior to the 1980’s were generally isolated and lacked any analytical foundations. Bourdieu (1986) and especially Coleman (1990) and Putnam (1993a) helped pioneer the most theoretically significant foundations for the concept. The next section explores their formulations and illustrates how mainstream economics recently joined the conceptual debates on social capital.

The Conceptual Debate

1. What is Social Capital?

Bourdieu, Pierre’s (1986) definition of social capital expanded the notion of capital from the traditional economics emphasis on material exchanges to include immaterial and non-economic forms such as family background, social class and varying investments in education. He suggests that social capital can be attributed to an individual and that an individual’s social capital is determined by the size of their relationship network and the sum of accumulated resources like education. He defines social capital as
“the aggregates of actual or potential resources which are linked to the possession of a durable network of institutionalized relationships of mutual acquaintance and recognition” (Bourdieu, Pierre 1986; p.248)

Bourdieu’s (1986) interpretation of social capital has nevertheless traditionally been more appealing to sociology because of its emphasis on social class stratifications and the analysis of these groups. Coleman (1990) argues that social capital is defined mostly by its function. In this sense he adopts a rational choice framework in his analysis of social capital. He recognizes that all aspects of social structure that contribute to the solutions of public action (such as free-riding) should be considered as social capital and thus he also adopts a game theoretic format. He insists that social capital

“.. is not a single entity, but a variety of different entities having two elements in common:... consisting of some aspect of social structure, and [facilitating] certain actions of individuals, whether persons or corporate actors, who are part of [that] structure”. (Coleman, James 1990; p. 59)

Coleman’s contention that social capital is not restricted to single individuals (he includes corporate actors), illustrates his differences with the Bourdieu (1986), who implies that social capital pertains primarily to individuals.
For Putnam (1993a), social capital is a property of societies rather than individuals. For him, as for Coleman social capital provides a solution to collective action problems. He describes social capital as

"...features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated action".

(Putnam, Robert 1993a; p.167)

The Bourdieu conceptualizations of social capital have been almost totally ignored by most of the mainstream development agencies. Putnam and Coleman’s works, based on rational choice analysis and game theory, have on the other hand contributed most to current mainstream interpretations of social capital. They have rigorously identified the most conceptually sound and practically useful bounds of the concept and have opened up a new era of debate in the concept.

Fukuyama, Francis (1995) critically examines one of the components of social capital — trust — and suggests that social capital is a capability that arises from trust and that different societies have over generations cultivated different levels of trust. He concludes that ceteris paribus, those societies with higher levels of positive spontaneous associability (trust) tend to exhibit higher levels of economic development. He nevertheless argues that the social capital created from trust in a community cannot be acquired through rational choice as can say human capital, where one may chose to go to school because of the individual benefits that accrue from education. His rejection of
rational choice in the acquisition of social capital clearly differentiates his views from those of Coleman and Putnam.

Grootaert, (2000) has argued for a wider conception of social capital that encompasses the broad social and political environment within which social structures and norms develop and function. This wider definition of social capital adds formal structures and norms to the informal social institutions as defined by Coleman and Putnam: adding government, the rule of law and civil and political liberties. Such a wider definition is consistent with the works of Olson (1982) and North (1990) on institutions.

Uphoff, Norman (2000) and various other scholars have attempted to clarify the concept by classifying and mapping the different forms of social capital that are present in a society. Woolcock’s (1998) definition of social capital is consistent with the ‘generalized networks of modern societies’ definition of social capital. He distinguishes between ‘strong’ and ‘weak’ ties; in this case arranged across a social space extending between macro- and micro-institutional poles. He portrays social capital as a balance between ‘embeddedness’ (relations within and among economic agents) and ‘autonomy’ (the need for links to complement or cut across these primary ties), at both the macro and micro level. Harris, John and Paolo De Renzo (1997) combine both structural and functional dimensions in their approach. Though quite critical of the concept of social capital, these authors argue that it can be analytically serviceable if different uses and forms are distinguished. They offer a six-fold classification of social capital: family and

---

4 The forms of social capital are examined in greater detail in Page 23 of this paper.
5 A concept originally introduced in debates by Granovetter, Mark (1985).
kinship connections, associational life, cross-sectional linkages (networks of networks’),
political capital, institutional and policy framework, and social norms and values. From
the brief introduction of the works of these authors and scholars, we can see the wide
breadth and variability of definitions that the term ‘social capital’ can generate. To get a
clearer picture of these varied definitions of social capital I have attempted to incorporate
the various formulations on social capital examined thus far into the dimensional format
as developed by one of the World Bank’s studies on social capital.

2. The Dimensions of Social Capital

Grootaert suggests that the concept of social capital can be viewed along three different
dimensions. It’s Scope (or unit of observation), its forms (manifestations), and the
channels through which it affects development.

i. The scope of Social Capital

The scope of the concept of social capital varies considerably in the literature. The
narrowest concept of social capital at the micro level is associated with Putnam (1993b),
whose concept of social capital relates to people with roughly the same power
distribution. i.e. those within a narrow social network. These kinds of relationships are
generally referred to as ‘horizontal associations’. Two presumptions underlie the
definition of social capital in this narrow definition: first, that networks and norms are

Social Capital Initiative, which is examined in greater detail in page 40.
associated and secondly that they have important economic consequences. While originally this concept of social capital was limited to associations having positive effects on development, recently it has been relaxed to include groups that may have undesirable outcomes as well, such as associations with rent-seeking behavior. The key feature of social capital in this definition is that it:

"...facilitates coordination for the mutual benefit of the members of the [horizontal] association". (Putnam 1993b; p.48)

Coleman (1998) put forth a second and broader ("meso") concept of social capital. His definition expands the concept to include vertical as well as horizontal associations, and also the behavior within and among other entities such as firms. Vertical associations include those groups also characterized by hierarchical relationships and an unequal power distribution among members. Vertical associations recognize that horizontal associations are needed to give communities a sense of identity and common purpose, but also stress that without ‘bridging’ ties that transcend various social divides (e.g. religion, ethnicity, and socio-economic status); horizontal ties can become a basis for pursuit of narrow interests. This wider range of associations covers a wider range of objectives — positive as well as negative.

A third and most encompassing view of social capital — at the macro level — includes the social and political environment that shapes social structure and enables norms to develop. In addition to the largely informal, and often local, horizontal and hierarchical
relationships of the first two concepts, this view also includes the most formalized institutional relationships and structures, such as government, the political regime, the rule of law, the court system, and civil and political liberties. This focus on institutions draws on North (1990) and Olson (1982), who have argued that such institutions have an important effect on the rate and pattern of economic development. These three basic concepts of social capital should not be seen as alternatives, but rather as different manifestations of social capital present in a society. Horizontal and hierarchical associations and micro-institutions can and should ideally co-exist in order to maximize the impact of social capital on economic and social outcomes.

ii. The Forms of Social Capital

Whether at the micro, meso or macro level, social capital exerts its influence on development as a result of the interactions between two distinct types of social capital – structural and cognitive. Uphoff’s definitions of structural and cognitive social capital have been the most influential.

“Structural social capital facilitates information sharing, and collective action and decision-making through established roles, social networks and other social structures supplemented by rules, procedures and precedents. As such, it is a relatively objective and externally observable construct. Cognitive social capital refers to shared norms, values, trust,
The forms of social capital can be, but are not necessarily, complementary.

Cooperation between neighbors can be based on a personal cognitive bond that may not be reflected in a formal structural arrangement. Similarly, the existence of a community association does not necessarily testify to strong personal connections among its members, either because participation in its activities is not voluntary or because its existence has outlasted the external factor that led to its creation. Social interaction can become capital thorough the persistence of its effects, which can be ensured at both the cognitive and structural level. For example, a sports association embodies the values and goals of the social interaction that initiated it, but the cognitive social capital created by the repeated social interactions can survive the end of the sports season and have lasting effects among, and even beyond, the original members.

iii. The Channels of Social Capital

Any form of capital represents an asset or a class of assets that produces a stream of benefits. The stream of benefits from social capital — or the channels through which it benefits development — includes several related elements, such as information sharing and mutually beneficial collective action and decision-making. Collier, Paul (1998) while investigating the concept of social capital from an economic perspective, suggests that:
"...social capital is economically beneficial because social interaction generates at least one of three externalities. It facilitates the transmission of knowledge about the behavior of others and this reduces the problem of opportunism. It facilitates the transmission of knowledge about technology and markets and this reduces market failures in communication. Finally it reduces the problem of free riding and so facilitates collective action." (Collier, Paul 1998; p. 27)

He distinguishes between whether the social interaction is reciprocal or unidirectional. For example, knowledge transmission may depend upon information pooling, which occurs through reciprocal interactions such as networks (informal) and clubs (organized), or upon copying, which only requires unidirectional interaction. He also distinguishes between organized or informal social interactions. The discussion on the dimensions of social capital covers a wide range of aspects. Table 2 below provides a summary.
Table 2
The Dimensions of Social Capital

<table>
<thead>
<tr>
<th>A. Scope</th>
<th>B. Forms</th>
<th>C. Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Horizontal</td>
<td>i. Structural</td>
<td>i. Reciprocal</td>
</tr>
<tr>
<td>ii. Vertical</td>
<td>ii. Cognitive</td>
<td>ii. Unidirectional</td>
</tr>
<tr>
<td>iii. Macro.</td>
<td></td>
<td>iii. Organized</td>
</tr>
<tr>
<td></td>
<td></td>
<td>iv. Informal</td>
</tr>
</tbody>
</table>

Drawing together what has been said in this brief review of the definitions and dimensions of social capital, we can find no consensus in a single definition. However the differing conceptions considered do have certain features in common: all are clearly concerned with the way in which social activities condition economic phenomena, and in particular the positive externalities of social phenomena. These may include elements of organization, groups, social networks, social structure, values and predispositions such as trust.

The recent efforts made at constructing a definition of social capital that is acceptable in mainstream economics, has nevertheless not escaped the critics. Dasgupta, Partha (2002) argues that Putnam’s (1990) definition of social capital (which describes features of social organization – trust, norms and networks) suffers from a major weakness: it adds up all these different objects but does not indicate how they can be amalgamated.
Dasgupta acknowledges their importance but insists that they should be studied separately in order to understand them. But more importantly for this paper, he argues that these different objects do not add up to 'social capital'.

“There is no single object called social capital, just a multitude of bits that together can be called social capital. Each bit reflects a set of interpersonal connections”. (Dasgupta, Partha 2002; p.7)

If we put aside Dasgupta’s objections briefly and argue that his ‘objects’ do indeed add up to social capital, there is still the other related serious problem — misgivings about the rather varied definitions that the concept can assume. Durlauf, Steven (1999) argues that the conceptual ambiguities arise from the differences over whether social capital should be defined in terms of its effects or in terms of its characteristics. He alerts us that defining social capital in terms of its effects renders empirical analysis difficult because the effects of social capital are so varied and multidimensional. Empirical analysis in neo-classical economics demands a clear definition of the concept to be analyzed. He suggests that pinning the definition of social capital on the effects, results in multiple and varied definitions that render empirical analysis difficult. He adds that empirical analysis based on a functional (effects) definition will present another problem. This arises from the fact that one of the primary functions of empirical analysis is examination of the ‘effects’ of a concept. The empirical analysis of a functional definition is therefore an examination of ‘the effects of the effects’ of a concept. Portes refers to this as
Given these observations, we can see how a functional definition of social capital may diminish its usefulness as a tool in economic analysis. Durlauf (1999) further cautions that defining social capital from its characteristics may prove difficult; this is because since social capital as a concept tends to be observed implicitly it may prove difficult to isolate its properties. Different definitions will then arise depending on what different researchers isolate or observe. He also notes that social capital has negative effects. He observes that social capital tends to be a product of restricted group identities (social, ethnic, religious, regional) and therefore is not a positive concept in the promotion of egalitarianism.

“It is no exaggeration to say that the increasing egalitarianism in America has historically been associated with the breakdown of group identities and so, one suspects, with a diminution of social capital, at least as conventionally [defined]”. (Durlauf, Steven 1999; p. 5)

3. Is social capital really a form of capital?

In addition to the definitional issues, critics of social capital have also questioned the rationale of classifying the concept as a distinct form of capital. Neo-classical economics has traditionally regarded human and physical/produced capital as the ‘accumulated
stocks of wealth from which the economic development and growth emerge. Burt, Ronald (1992) suggests that social capital is not really a distinct category of capital and that it is simply a component of human capital. But that it is difficult to untangle networks (social capital) from the rest of human capital because of the externalities that exist between the two. Arrow (2000) observes that networks (social capital) can be a deterrent for market systems. Arrow’s views on networks questions the ‘capital’ value of social capital (as an engine of economic development) when we consider his assertion that networks (even those that facilitate mutually beneficial outcomes) can prevent competitive markets from functioning well or even from coming into existence. Arrow’s observations echo those of Stiglitz (1991) who illustrates that because networks — the harbingers of social capital — frequently replace or interfere with the free market system (as is the case in many traditional societies) then they have no value under a neo-classical economics framework. These observations on social capital all call to question the ‘capital’ value of the concept.

Serageldin (1996), Grooteart (1997), Putnam (1998) and other scholars have nevertheless vigorously defended the relevance of social capital. Serageldin suggests that,

“Social capital should be seen in the context of the contribution it makes to sustainable development ... the process whereby future generations receive as much or more capital per capita as the current generation has available.” (Serageldin, Ismail 1996; p. 9)

7 Grooteart 2001
Grootaert (1997) observes that the three types of capital (natural, physical and human) only partially determine the process of economic growth and that they overlook how (My emphasis) economic agents relate to produce capital in order to generate growth and economic progress. Social capital shares several attributes with the other forms of capital. Foremost, like human and physical capital, it is not costless to produce, as it requires an investment. Putnam, (1988) in his analysis of civic associations in Italy shows that social capital can take generations to build and become fully effective. The key attribute of capital, however is that it is an accumulated stock from which a stream of benefits flows. This view that social capital is an asset, that is, that it represents genuine capital, means that it is more than just a set of social organizations or social values. Social capital is not only an input, but also an output of economic and social activity. On the input side it requires an investment to create while on the output side is its resulting ability to generate a stream of future benefits. Nevertheless, social capital, in contrast to physical capital, is not usually created through conscious undertakings, more frequently it is a by-product of activities directed at economic or other endeavors. However, like physical and human capital it can be created and like all the three conventional forms of capital it can be also be destroyed (indeed destruction may be easier than construction). Social capital is built through constructive use, and decays through misuse.

The reservations of Dasgupta (2002), Arrow (2000), Durlauf (1999), Burt (1992), and Stiglitz (1991) as already examined, represent the general trends of the misgivings of economists about the current attempts at a mainstream-friendly conceptual construct of social capital. Nevertheless, these misgivings have not deterred the proponents of social
capital as evidenced by Serageldin’s (1996), Grooteart ‘s (1997), and Putnam’s (1998) defense of the concept.

As observed earlier, the concept has been the subject of study in various professional disciplines, including sociology and political science, each with its own distinct entry point when applying the concept. Mainstream economics attempts at incorporating social capital through game theory and rational choice — the analysis of contracts and institutions and their impacts on the incentives for rational actors to engage in investments and transactions. At the microeconomic level, it has been suggested that social capital is an important vehicle by which the functioning of markets can be improved. While at the macroeconomic level, it is suggested that the networks formed from institutions, legal frameworks and the government’s role in the organization of production affect performance. Chapter four examines the progress made in the efforts at designing an empirical approach to social capital.
4. AN OVERVIEW OF THE EMPIRICAL APPROACHES TO SOCIAL CAPITAL

Given the wide range of possible operational definitions of social capital, mainstream researchers face the dilemma that while narrow definitions are likely to generate indicators that are easy to measure, these will probably not be the most meaningful to social actions such as poverty alleviation. Measurement presupposes that one can define fairly well what needs to be measured and as evidenced in the previous chapter, definitions of social capital vary greatly. This makes it inherently difficult to propose a definite list of its indicators. Grootaert (2001) explains that meaningful use of indicators requires a conceptual framework within which they can serve to measure the links between strategy and actual outcome variables, and to assess policy options.

He classifies the concept of social capital into the three groups: narrowest, intermediate and macro (closely corresponding to the three levels of scope — horizontal, vertical and macro — that are identified in chapter 3). He then explains that the conceptual framework for the narrower definitions of social capital have made more headway than for broader definitions, which attempt to link institutions at the macro-level with economic outcomes.
Micro-level measurements of social capital

For the narrowest concept of social capital, Grootaert (2001) suggests that one can compile a list of civic associations and their attributes (e.g. number of members; frequency of meetings; dimensions of membership along ethnic, kinship, or other lines; type of decision making) as proxies for social capital. However, he contends that the reality is that such lists are seldom available for the construction of a meaningful cross-cultural model and case studies carried out so far tend to be limited in geographical distribution. Nevertheless, evidence does exist to suggest that local associations play a key role in projects that involve common property assets (like water and forests). For example one of the Social Capital Initiative\textsuperscript{8} studies produced a document: ‘Household Income and Social Capital in Rural Tanzania.’ by Narayan, Deepa and Lant Pritchett (1996), in which a multiple regression of data on 750 households in 45 Tanzanian villages confirmed that the level of social capital in a village (defined by membership of groups and networks), was a key contributor to household welfare. Similar studies by the SCI at the local level suggest that the measurements of proxies for social capital at the local level correlate positively with the levels of economic prosperity for the local individuals.

In their work for the SCI (working paper no.21), Krishna, Anirudh and Elizabeth Shrader (2000) designed a cross-cultural measure of social capital — Social Capital Assessment Tool — which they developed from the cognitive and structural\textsuperscript{9} conceptual frameworks

\textsuperscript{8} The Social Capital Initiative (SCI) is discussed in the next section of this chapter.
\textsuperscript{9} Structural and Cognitive frameworks for social capital are defined in page of this report.
for social capital. The Social Capital Assessment Tool (SCAT) is a multi-sectoral model to be used at the micro level by integrating both qualitative and quantitative methodologies. The tool has three components, which may be applied separately, sequentially or simultaneously, though they suggest simultaneous application as the preferred method.

“The first component of the SCAT is a community profile, which integrates participatory qualitative methods with a community survey instrument to identify features associated with social capital. [such as] the prior experience of collective action, mechanisms available for conflict resolution, community governance and decision-making patterns, and local organizations and networks. The second component is a household survey, which includes 39 close-ended items that relate to the structural dimension of social capital and 21 close-ended items that relate to the cognitive dimensions. Administering this instrument... facilitates the application of quantitative analysis for measuring social capital.

The third component is an organizational profile designed to delineate the relationships and networks that exist among formal and informal institutions. This instrument integrates semi-structured interview data with a scoring system for assessing organizational capacity and sustainability”. (Krishna, Anirudh and Elizabeth Shrader 2000; p.19. Emphasis added).
Although the three SCAT components were developed and applied in over 25 different studies conducted among urban and rural populations in Panama and in India, Krishna and Shrader claim that they are now available for wider application in different countries and cultural contexts. They contend that the SCAT components are intended to measure micro-level social capital at all the stages of project design for communities and households. Macro-level social capital measures are nevertheless not included in the SCAT.

**Macro level measurements of social capital**

The macro level empirical studies of social capital have proved to be more difficult than the micro level measures. Nevertheless, attempts have been made. Grootaert (2001) observes that some studies introduce social capital into production function models as the fourth class of capital (with physical, natural and human capital). He opines that the contribution of social capital to economic growth (or investments or equity) can then be estimated in two ways. The first method is from accounting-type production function models, which explain Gross Domestic Product (GDP) growth as a function of labor, capital, and technology. After subtracting physical and natural capital (from the capital component), a ‘capital residual’ is obtained that lumps together both social and human capital. Separating social capital from human capital under this method then requires a direct estimation of human capital. Grooteart (2001) notes that this has not yet been done successfully. The model relies on enrolment figures in educational and other institutions to estimate human capital, but this has been criticized for being too narrow a scope for
human capital. Therefore the results obtained from the net social capital residual are still debatable. The advantage of the residual approach is that at the very least, it identifies the contribution of both human and social capital (at least if one accepts the assumption that growth is a function of the three identified factors of production). An example of this approach is an East Asian miracle study, which found that conventional growth accounting models,

"..could only fully explain 17 to 36 per cent of the difference in growth performance between East Asian [countries] and other parts of the world"

(World Bank 1993; p.24).

The residual can then be attributed to both human and social capital. Development researchers are then in a position to at least approximate how much social capital may contribute to growth. Grooteart (2001) also identifies a second method of estimating the impact of social capital. This is done by a direct approximation of the impact on growth (or investment or equity), of specific components of social capital. The focus in this second method is on political or democratic aspects of society. The social capital indicators in the direct method include measures at the micro level (horizontal associations) but are more concentrated with macro level indicators. These include measures of civil and political society, (expropriation risk, corruption, enforcement of property rights, government changes, coups), measures of social integration (crime, suicide, riots, illegitimacy, divorce and so on), and measures of legal and governance

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10 There are conflicting interpretations of how the gross residual should be treated, specifically how much of it is human and therefore how much is the net residual: Social capital. The problem arises primarily from the different interpretations and statistical methods used in calculating human capital.
aspects (quality of bureaucracy, independence of court systems etc.). Table 3 contains a list of such variables, which have been used in cross-country analysis and are available for a number of countries. The table includes variables that may be of use in the construction of a macro-level model for social capital.

Table 3

**Indicators of Social Capital (Micro, Meso and Macro-level)**

1. **Horizontal Associations**

<table>
<thead>
<tr>
<th>Number and type of associations or local institutions</th>
<th>Extent of trust in trade unions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent of membership in local associations</td>
<td>Perception of extent of community organization</td>
</tr>
<tr>
<td>Extent of participatory decision making</td>
<td>Reliance on networks of support</td>
</tr>
<tr>
<td>Extent of kin homogeneity within the association</td>
<td>Percentage of household income from remittances</td>
</tr>
<tr>
<td>Extent of trust in village members and Households</td>
<td>Percentage of household expenditure for gifts and transfers</td>
</tr>
</tbody>
</table>
Extent of trust in government

2. Civil and political society

Index of civil liberties (Gastil, Freedom House)

Percentage of population facing political discrimination

Index of intensity of economic discrimination

Percentage of population involved in separatist movements

Gastil’s index of political rights

Freedom House of political freedoms

Index of democracy

Index of government inefficiency

Index of corruption

Degree of decentralization of government

Voter turnout

Political assassinations

Constitutional government changes

Strength of democratic institutions

Coups

Measure of human liberty

Measure of political stability
3. Social integration

Indicator of social mobility

Measure of strength of ‘social tensions’

Ethno linguistic fragmentation

Riots and protest demonstrations

Strikes

Homicide rates

Suicide rates

4. Legal and governance aspects

Other crime rates

Prisoners per 100,000 people

Illegitimacy rates

Percentage of single-parent homes

Divorce rate

Youth unemployment rate
Quality of bureaucracy  Repudiation of contracts by government

Independence of court system  Contract enforceability

Expropriation and nationalization risk  Contract-intensive money (currency/M2)


The Social Capital Initiative

The biggest empirical challenge for development agencies is evidently to ‘operationalize’ the concept of social capital and to demonstrate how much it affects development outcomes. The largest most comprehensive study on social capital to date was carried out between 1996 and 1999 by the World Bank’s Social Development Department under the project name Social Capital Initiative (SCI). I will briefly introduce the objectives of the project, underscore some of its major findings and generally have a quick overview of the project.
With the help of a generous grant ($10 Million) from the Government of Denmark, the initiative funded a set of twelve projects and numerous case studies that had as its primary objective, the definition of and measurement of social capital. The SCI sought to provide empirical evidence from more than a dozen countries, as a basis to design better development interventions that can both safeguard existing social capital and promote the creation of new social capital for use in development initiatives. For example, the World Bank is supporting micro-credit initiatives that rely on social solidarity and community norms of trust. Agricultural and environmental projects have to strengthen non-formal and civil society institutions such as water user’s associations, joint forest management groups and indigenous federations. Before the SCI there had been no systematic efforts to assess the impact of investments in social capital in these interventions, the SCI claims to have since filled this gap. The twelve selected projects examined the social role and behavior of micro and macro institutions, and involved different classes of actors: farmers associations, urban service user groups, ethnic communities, educational associations, firms and formal institutions. A special focus was put on economies in transition and on nations that have been ravaged by war or civil strife. The projects covered a wide geographic region: four projects were focused on Asia, three related to Africa, two each from Latin America and Former Soviet Union / Central Asia, and one was conducted in parallel in Asia and Africa.

The SCI had a triple goal:

- To assess the impact of initiatives to strengthen social capital on project effectiveness.
To demonstrate that outside assistance can help in the process of social capital formation.

To contribute to the development of indicators for monitoring social capital and the methodologies for measuring its impact on development.

The SCI case studies used a variety of analytical methods in formal research designs with wide use of control groups and extensive application of econometric analysis. The main revelation was the affirmation of the usefulness of using proxies to measure social capital in a policy-relevant manner.

The case studies suggested that the focus should be on three types of proxy indicators:

i. Membership in local associations and networks;

ii. Indicators of trust and adherence to norms, and

iii. An indicator of collective action.

The SCI study suggests that as proxies, these three types of indicators measure social capital from all the three entry points. Proxies estimate variables from three points. Firstly is the input point, i.e. vehicles through which the actual variable is reached.

Secondly is the output point, i.e. results of the ‘reaction’ to the variable and lastly, direct i.e. by taking the actual value of proxy as an estimate of the variable.

Membership in local associations and networks is clearly an input indicator, since the associations and networks are the vehicles through which social capital can be acquired. This indicator resembles perhaps most closely the use of years of schooling as a proxy for human capital. Secondly, trust can be seen as an input or output indicator or even as a
direct measure of social capital, depending on one’s conceptual approach. Collective action is clearly an output indicator. Because of their different perspectives, the SCI study suggests that these three types of indicators, taken together, provide a basis for the measurement of social capital and its impacts. The indicators are relevant primarily at the micro and meso level; although the study suggests that some can be aggregated at the regional or national level. These three sets of indicators may provide a helpful framework for designing questionnaires that provide a measurement instrument. The SCI study admits however that the exact questions and indicators for each analysis have to be adjusted to each socio-economic setting. The lack of a clear indicator or set of clear indicators is one of the main criticisms in the empirical analysis of social capital; classical and neo-classical economists insist on ‘generic modeling’ in arriving at solutions to economic problems. They insist that in the absence of generic models based on quantitative and or qualitative variables, no theory can serve empirical usefulness.

The exact empirical channels through which social capital impacts development outcomes have only recently begun to be explored, and the many lessons to be drawn from these observations for program design and implementation remain, and if indeed they exist, are only, now it seems, being formulated. The empirical studies performed under the SCI seem to indicate that social capital has a profound impact in many different areas of human life and development: it affects the provision of services in both urban and rural areas; transforms the prospects for agricultural development; influences the expansion of private enterprises; improves the management of common resources; helps improve education; can prevent conflict and can compensate for a deficient state; all
important ingredients in the fight to eradicate poverty. The SCI study strongly suggests that it is possible to measure social capital and its impacts. It is the general hope though, that such enthusiast appraisals eventually lead to useful empirical constructs for the concept of social capital that can eventually help in formulating solutions to alleviating the current intolerable levels of poverty.
5. CONCLUSIONS

This report has illustrated the efforts made so far in advancing the incorporation of social capital into economic theory and development policy and thus attempting a new direction in research on development economics. I have especially examined the mainstream’s current interest in social capital. It is only in the last decade or so that the mainstream development agencies and scholars have paid any meaningful attention to the concept of social capital. The active participation of the mainstream is indeed a welcome change. This report suggests that there are numerous sub debates taking place in the attempts at incorporating social capital into economic policy. At least four such sub debates exist.

Firstly, institutionalism clearly recognizes the importance of culture in economics and as has been suggested, is the most lucid school of economic thought in detailing the relationship between culture and economics. What then can the current debates on social capital add to what institutionalists have previously argued about culture and economics? The mainstream’s attempts at considering the entire terrain of social capital theory into a single variable, as argued under rational choice theory, are creative attempts at distinguishing the cultural implications of social capital from those postulated by institutionalists. But the definitional and empirical approaches under this neo-classical approach, have at times taken on an intellectual homogenization that in many ways attempts to ‘de-culture’ the concept of social capital. At the micro-level, social capital
models (such as SCAT) suggest that local networks are important in facilitating development. Of the two levels — micro and macro — the micro level models seem to generate lesser disagreements. It is at the macro-level that the concept is most unconvincing. The list of variables in table 3 is not clear as to how a social capital model can be created; more importantly, it is also not clear how different these observations are from the institutionalists approach. Poverty is both an economic and cultural (social) problem. In order to effectively tackle the current problems of poverty, it is imperative that culture (and cultural differences) be fully incorporated into economic theory and development policy. The proponents of social capital (especially when examined at the macro level) have not been fully convincing as yet on how the concept is able to incorporate culture into mainstream economic theory and more importantly how to translate this interplay to policy.

The second social capital sub debate is composed of two interrelated issues. First is the controversy as to whether social capital really is a distinct form of capital, and second is the misgivings about its conceptual development. Burt (1992) argues that social capital is really not a distinct form of capital (in the neo-classical sense) and suggests that networks (social capital) form part of what is commonly referred to as human capital. He argues that the complex externalities that exist between the two make it difficult to distinguish social capital as its own distinct form of capital. He seems to suggest that the appropriateness or inappropriateness of including social with physical, natural and human capital as a fourth category of capital is a question of the extent to which it is possible to untangle social from human capital.
The most contentious conceptual issue surrounding social capital lies in its definition. Many mainstream scholars are uncomfortable with both the content and the plurality of definitions that social capital has generated. Dasgupta (2002) in particular has reservations about the recent definitions of social capital that seem to amalgamate different objects or features of social organization – trust, norms, culture, institutions, and networks. He argues that these different objects cannot and do not add up to social capital. He does however, concede that these features are interrelated but nevertheless insists that they are distinctly different and should not be lumped together. In general, it is the lack of one clear definition that does not sit well with scholars and suggests that social capital cannot be operationally applicable. Mainstream scholars such as Dasgupta thus consider the concept ineffective in developing an empirical model and therefore useless in formulating new economic theory or meaningful development policy. Nevertheless, some scholars have tried to explain the reasons behind the need for multiple definitions. Uphoff (2000) explains that social capital is composed of both a structural (objective) component and a cognitive (intangible) part. Social capital is both a tangible and intangible good (what is observed). Social capital is composed of multiple attributes. The four main ones are structure, value, process and outcome as discussed under the ‘Dimensions of Social Capital’. The task is to find ways of incorporating this multi-definitional approach into economic theory. This has yet to be done successfully. The empirical models developed thus far generally tend to be specific to certain regions or cultures. In fact, one of the conclusions of the Social Capital Initiative’s SCAT project is that
‘..the exact questions and indicators to be used in its Social Capital Assessment Tool have to be adjusted to fit each social, economic and cultural setting’ (Grootaert, Christiaan and Thierry Van Bastelaer 2001; p.9).

For instance, in designing and conducting the household survey, the SCI did recognize that the composition of households and the definition of immediate family vary across cultures. Such complications and the resulting lack of a generic model for social capital does not sit well with the mainstream and has led to the criticism that social capital cannot serve any empirical usefulness. Both the conceptual and empirical problems identified in this report are inherent in neoclassical economics’ difficulties with the cultural dimensions in economics. Nevertheless, serious research on social capital is indeed taking place and positive signs, such as the SCAT, are emerging.

The third social capital sub debate concerns the negative impacts of social capital. It has been suggested that social capital’s negative socio-economic impacts may render the concept useless for the construction of a model for economic theory. Durlauf’s (1999) argument that strong networks (social capital) are exclusive and therefore tend to promote anti-egalitarian socio-economic outcomes is a good observation and worth noting. Stigliz (1991) and Arrow’s (2000) comments also follow along these lines when they argue that the promotion of social capital can indeed prevent or destroy free market systems. These scholars expose what can be potentially negative effects of social capital. The question that arises from the above criticism and requires further research is this: Is social capital
anti-egalitarian in the hands of disruptive agents/groups or is it inherently disruptive and anti-egalitarian period?

Lastly, social capital faces the problem of political influence and manipulation. If social capital is to be relevant in economic policy initiatives then it should be completely detached (and seen to be completely detached) from the appearance that it is being manipulated for purely political or selfish reasons. So far scholars in the premier development agencies (especially the World Bank) have done a relatively poor marketing job of ‘depoliticizing’ social capital. For many seasoned professionals in political economy like Paul Cammack (and also to casual observers), the recent enthusiastic ‘embrace’ of social capital by the World Bank is seen largely as political mischief. The motives postulated for this vary in detail, from Cammack’s (2002) ‘conspiracy theory’ to other more mundane allegations. Cammack specifically accuses the World Bank of deliberately sabotaging the development agenda to serve the rather narrow interests of ‘commodity-centered’ capitalism as opposed to really fighting poverty. It is important to note that before the mainstream (especially World Bank) scholars re-ignited the various social capital debates, many of the proponents of social capital were individuals and groups ideologically opposed to the principal development policies and methods of the World Bank. It is therefore not too far fetched to imagine that the real motives of the World Bank may not be in tandem with those postulated by the original proponents of social capital. Cammack insists that the World Bank is specifically seen in this context as participating in the social capital debate so as to fashion it in a neo-liberal friendly context. He believes this fashioning is an attempt by the Bank to entrench the neo-liberal
approach to capitalism at the expense of really fighting poverty. Stiglitz, Joseph (2003), a former top official of the World Bank, suggests that the Bank and the International Monetary Fund (IMF) have a history of pandering to political changes engineered in the United States and other western countries and that these institutions have lost the noble principles — the World Bank, to aid development and the IMF, to provide global financial stability — under which they were founded in 1944. He specifically suggests that:

‘...the most drastic policy changes in these institutions occurred in the 1980’s, the era when Ronald Reagan and Margaret Thatcher preached free market ideology in the United States and United Kingdom. The IMF and the World Bank became the new missionary institutions, through which these [political] ideas were pushed on reluctant poor countries that often badly needed their loans and grants.' (Stiglitz, Joseph 2003; p.12-13 Emphasis added)

He further recognizes that in the 1980’s the World Bank deliberately went beyond its initial role of lending for specific projects (like dams and roads) to broad-based structural adjustment loans and insisting on unsolicited policy initiatives that were only disbursed after the IMF imposed its conditions on a country. These developments were thereafter closely followed by the Bank’s emphasis on ‘new’ economic tools such as social capital. Given such allegations, it is imperative that The World Bank and other major development agencies aggressively work to be seen to de-link the purely political motives
(that the social capital debates can invariably get entangled in), from genuine efforts at incorporating social capital into meaningful economic policy. Though not impossible, this may not be an easy task given the enormous (oftentimes negative) influence that nation states (especially the United States and other western nation governments) have on most of these agencies. Social capital as a concept derives most of its appeal and relevance as a development tool because it is people driven and people at the local level need to know and feel that policies that derive from applying the concept really are from their own traditions and norms, not from Washington D.C.

Unlike the conventional forms of capital, social capital is transmitted mainly through cultural mechanisms such as norms, rules, traditions and both formal and informal institutions. This cultural dimension presents a challenge to mainstream economics. Nevertheless attempts have been made, from Coleman and Putnam’s rational choice analysis and game theoretic frameworks, to incorporate social capital into the mainstream. The proponents of the concept have argued that the social capital has enormous potential benefits. The beneficial impacts of social capital at the local level as suggested by studies such as the Social Capital Initiative suggest a case for further research. The derivation of policy prescriptions and the provision of guidelines about how to invest in social capital (especially at the macro-level) are nevertheless certainly lagging behind and will only follow if research is encouraged. The case for massive investment in social capital does exist, but has not been fully made. Social capital has many limitations and it may not be the best way to incorporate culture into economic theory, but it is has at least emerged as one of the vehicles for encouraging mainstream
economists to consider the importance of cultural differences and considering the role of culture in policies that alleviate poverty especially in developing countries. Investing in social capital is more difficult than investing in say human capital, where a number of time-tested approaches are available (the construction of schools, teacher training programs, developing appropriate curricula etc). Equivalent recommendations in investing in social capital have thus far not yet been fully developed. Nevertheless as the evidence of SCI studies indicates, rudimentary analytical tools are already available to register the presence and forms of social capital at the community level. Including this information in project design can lead to development activities that at least do not negatively affect existing social structures and norms. When faced with different project designs, development policy practitioners are now at least in a position to use the localized information on the existence and forms of social capital in the community to select the design that will maximize the role of social capital in influencing project outcomes. Some vestigial attempts have also been made at developing a cross-country model for social capital. However, the empirical ‘problem’ in the mainstream still remains one of objectivity and how to fully develop some acceptable social capital macro ‘model’. From the discussions emerges an indication that there is a need to further study social capital; it does indeed seem to have a role to play in formulating new policy in development economics in general and fighting poverty — whether this is viewed as an individual, national or global problem — in particular. The empirical studies performed under the SCI indicate that social capital has a profound impact in many different critical areas of human life and development especially at the local level: it affects the provision of services in both urban and rural areas, transforms the prospects for development of
primary industries like agriculture and fishing, improves the management of common resources, helps improve education, can prevent conflict and can compensate for a deficient state; all important ingredients in the fight to eradicate poverty. Nevertheless, the many limitations of social capital as currently envisioned in the mainstream may preclude the concept from being the best way to fully incorporate culture into economics. It is at the very least heartening that some mainstream scholars and policy makers recognize the demand for the intellectual input and further research on social capital.
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