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# THE EMPIRICS OF SOCIAL CAPITAL AND ECONOMIC DEVELOPMENT: A CRITICAL PERSPECTIVE\*

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## Introduction

From a theoretical point of view, modern political economy has developed by depriving economic interactions of their social content. A typical example of this trend is given by the economy's working framework implied by Walrasian general equilibrium models. In this context, market interactions are reduced to the transmission of coded information through the auctioneer's agency. Agents never meet: they simply pass on to the auctioneer their purchase and selling proposals (Gui 2002). However, the economic activity is deeply embedded in the social structure, and agents' decisions are always influenced by a wide range of social and cultural factors. For example, most case studies show that enterprises devote an ever more relevant part of their financial resources to activities which are not directly related to production processes. Nurturing a cooperative climate inside the workforce and

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building trustworthy relationships with external partners generally constitute a key task for management. On the other side, workers' satisfaction is ever more affected by the quality of human relationships among colleagues, and not only by traditional factors like wage and job's conditions. According to Gui (2000), such relational assets contribute to firms' economic performance just like new machinery and warehouses. Growing attention has thus been devoted to the role that social norms, the diffusion of trust and logics of reciprocity play in shaping different kinds of transactions (Kahneman and Tversky 1979; Arnott and Stiglitz 1991; Berg, Dickaut and McCabe 1995; Fehr, Gächter and Kirchsteiger 1997; Frey 1997; Fehr and Gächter 2000; Sugden 2000). The growth literature is now pervaded by studies addressing the relationship between the economy's social and institutional fabric, the economic performance and development patterns (Kormendi and Meguire 1985; Bénabou 1996; Barro 1996; Collier and Gunning 1997; Knack and Keefer 1997; Temple and Johnson 1998; Whiteley 2000; Zak and Knack 2001; Gradstein and Justman 2002). Such voluminous strands of the literature may be interpreted as the sign of the emerging need to fill the gap that, in economics, still separates society from the economy.

The economic and sociological literature on social capital is another symptom of such need. In 1993, Putnam, Leonardi and Nanetti tried to explain the different institutional and economic performance of the Italian regions as the result of the influence exerted by some aspects of the social structure, summarized into the

multidimensional concept of 'social capital'. This study has received wide criticism in the social science debates of the 1990s. However, it posed a milestone for social capital theory, which registered an explosive development in the following decade, rapidly involving the attention of economists. As pointed out by Isham, Kelly and Ramaswamy (2002), a 'keyword' search in all journals in *EconLit*, the most frequently used database of references in economics, shows that citations for 'social capital' have grown rapidly over the last decade, doubling each year since the late 1990s. In 2000, social capital had about a quarter of the absolute number of citations. The so-called 'Italian work' (Putnam *et al* 1993) has been pronounced by the editor of the mainstream *Quarterly Journal of Economics* as the most cited contribution across the social sciences in the 1990s (Fine 2001; 83).

During the last ten years, the concept of social capital has been invoked almost in every field of social science research, and has been used to explain an immense range of phenomena, from political participation to the institutional performance, from health to corruption, from the efficiency of public services to the economic success of countries. However, despite the immense amount of research on it, social capital's definition remains elusive and, also due to the chronic lack of suitable data, there is neither a universal measurement method, nor a single underlying indicator commonly accepted by the literature. From a historical perspective, one could argue that social capital is not a concept but a *praxis*, a code word used to federate disparate but interrelated research interests and to facilitate the cross-fertilization of ideas across

disciplinary boundaries (Durlauf and Fafchamps 2004). As pointed out by Brown and Ashman (1996), one of the primary benefits of the idea of social capital is that it is allowing scholars, policy makers and practitioners from different disciplines to enjoy an unprecedented level of cooperation and dialogue.

Even if conceptual vagueness may have promoted the use of the term among social sciences, it also has been an impediment to both theoretical and empirical research of phenomena in which social capital may play a role. This chapter provides an introduction to the concept of social capital, and carries out a critical review of the empirical literature on social capital and economic development. The survey points out six main weaknesses affecting the empirics of social capital. Identified weaknesses are then used to analyze, in a critical perspective, some prominent empirical studies and new interesting research published in last two years. The review particularly lingers over the 'Italian work' carried out by Putnam *et al* (1993), for two main reasons. Firstly, this research constitutes the seminal study of this voluminous strand of the literature. Secondly, its shortcomings are 'critical', in that they repeatedly present themselves again in most of the following studies in the field.

The outline of this chapter is as follows: section 2 briefly introduces the concept of social capital, and its relevance to economics. Section 3 presents a critical perspective on the empirics of social capital, pointing out the main weaknesses of existing measurement methods. Section 4 reviews the empirical literature on social capital and

economic development. The chapter is closed by some concluding remarks and guidelines for further researches.

### **What is social capital and why is it relevant to economics?**

Although it has been popularized only in the last decade, due to Bourdieu's (1980; 1986), Coleman's (1988; 1990) and Putnam's (1993; 1995a) prominent studies, the concept of social capital has a long intellectual history in social sciences. The sense in which the term is used today dates back to about 90 years, when Hanifan (1916) invoked the concept of social capital to explain the importance of community participation in enhancing school performance. After Hanifan's work, the idea of social capital disappeared from the social sciences debate (Seely, Sim and Loosely 1956; Homans 1961; Loury 1977; Jacobs 1971). Three decades before Putnam's work, Edward Banfield (1958) used social capital concept to explain southern Italy's economic backwardness, but his study did not arouse interest in economic debates. Bourdieu (1980) identifies three dimensions of capital each with its own relationship to the concept of class: economic, cultural and social capital. Bourdieu's idea of social capital puts the emphasis on class conflicts: social relations are used to increase the ability of an actor to advance his interests, and becomes a resource in social struggles: social capital is 'the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition' (Bourdieu and

Wacquant 1986; 119, expanded from Bourdieu 1980; 2). Social capital thus has two components: it is, first, a resource that is connected with group membership and social networks. 'The volume of social capital possessed by a given agent ... depends on the size of the network of connections that he can effectively mobilize' (Bourdieu 1986: 249). Secondly, it is a quality produced by the totality of the relationships between actors, rather than merely a common 'quality' of the group (Bourdieu 1980). At the end of the 1980s, Coleman gave new relevance to Bourdieu's concept of social capital. According to Coleman, '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 in some aspect of social structures, and they facilitate certain actions of actors within the structure' (Coleman 1988: 98). In the early 90s, the concept of social capital finally became a central topic in the social sciences debate.

In 1993, Putnam *et al* published their famous research on local government in Italy, which concluded that the performance of social and political institutions is powerfully influenced by citizen engagement in community affairs, or what, following Coleman, the authors termed 'social capital'. In this context, social capital is referred to as 'features of social life-networks, norms, and trust, that enable participants to act together more effectively to pursue shared objectives' (Putnam 1995b). Like other forms of capital, social capital is productive, making possible the achievement of certain ends, that in its absence would not be possible. But, in Coleman's words, 'Unlike other forms of capital, social capital inheres in the structure of relations

between actors and among actors. It is not lodged either in the actors themselves or in physical implements of production' (Coleman 1988: 98). The use of the term 'capital' is criticized by several authors belonging to the field of economics, in that it refers to things that can be owned. For example, Bowles and Gintis (2002) sustain that the term 'community' would be more appropriate, because it 'better captures the aspects of good governance that explain social capital's popularity, as it focuses attention on what groups *do* rather than what people *own*' (Bowles and Gintis 2002: 422). By 'community' the authors mean a group who interact directly, frequently and in multi-faceted ways. This point is stressed by Arrow (1999), who sustains that 'capital' is something 'alienable', that is, its ownership can be transferred to one person to another. According to Arrow, it is difficult – as with human capital – to change the ownership of social capital.

The cited perspectives on social capital are markedly different in origins and fields of application, but they all agree on the ability of certain aspects of the social structure to generate positive externalities for members of a group, who gain a competitive advantage in pursuing their ends.

From a rational choice theory perspective, it is possible to describe social capital as an input of agents' utility and production functions. Becker (1974; 1996) describes social capital as a particular kind of intermediate good for the production of assets (the so-called 'commodities', corresponding to people's basic needs) entering as



arguments in agents' utility functions. According to Becker, people invest rationally in social capital in the context of an utility maximization problem. Becker's social capital is thus an individual resource, used within the context of utility maximization problems by perfectly rational and informed agents. The role of social capital as a collective resource serving the achievement of macro outcomes is instead well explained by the new economic sociology perspective (Granovetter 1973; 1985). Granovetter identifies social capital mainly with social networks of weak bridging ties. According to the author, 'Whatever is to be diffused can reach a larger number of people, and traverse greater social distance, when passed through weak ties rather than strong. If one tells a rumour to all his close friends, and they do likewise, many will hear the rumour a second and third time, since those linked by strong ties tend to share friends' (Granovetter 1973: 1366). Social networks can thus be considered as a powerful mean to foster the diffusion of information and knowledge, lowering uncertainty and transaction costs.

### **The problem of measuring social capital: a critical perspective**

Despite the immense amount of research on it, the definition of social capital has remained elusive. Conceptual vagueness, the coexistence of multiple definitions, the chronic lack of suitable data have so far been an impediment to both theoretical and empirical research of phenomena in which social capital may play a role. In this regard it is possible to observe that the problems suffered by empirical studies of

social capital are, at some level, endemic to all empirical work in economics (Durlauf, 2002). Heckmann (2000) states that the establishment of causal relationships is intrinsically difficult: ‘Some of the disagreement that arises in interpreting a given body of data is intrinsic to the field of economics because of the conditional nature of causal knowledge. The information in any body of data is usually too weak to eliminate competing causal explanations of the same phenomenon. There is no mechanical algorithm for producing a set of ‘assumption free’ facts or causal estimates based on those facts’ (Heckman 2000: 91).

However, according to Durlauf (2002) ‘The empirical social capital literature seems to be particularly plagued by vague definition of concepts, poorly measured data, absence of appropriate exchangeability conditions, and lack of information necessary to make identification claims plausible’ (Durlauf 2002: 22). In his article, the author reviews three famous empirical studies<sup>1</sup>, concluding that they do not help in understanding the socioeconomic outcomes of social capital. Durlauf’s critique is one step forward in respect to the position of some prominent economists, who doubt the possibility of providing credible measures, and question the opportunity itself to consider the concept as a useful analytical tool for economics. In his critique to Fukuyama, Solow (1995) writes: ‘If ‘social capital’ is to be more than a buzzword,

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<sup>1</sup> Durlauf’s benchmark studies are Furstenberg and Hughes (1995), Narayan and Pritchett (1999), Knack and Keefer (1997).

something more than mere relevance or even importance is required. ... The stock of social capital should somehow be measurable, even inexactly' (1995: 36).

As a reply, it is possible to observe that, during last ten years, empirical research has proposed a great variety of methods for measuring social capital and testing its ability to produce relevant social, economic, and political outcomes. However, the empirics of social capital still suffer from a definite difficulty to address macro outcomes in a convincing way, and this strand of the literature seems to be chronically affected by some definite problems. In particular, we can identify six main shortcomings:

1. despite the great amount of research on it, the definition of social capital remains substantially elusive. Following Coleman (1988), great part of the literature refers to social capital as all 'the aspects of the social structure that facilitate certain actions of actors within the structure ... Making possible the achievement of certain ends that, in its absence, would not be possible' (Coleman 1988: 98). Such 'productive' aspects of the social structure can vary according to different environmental situations and agents' needs: 'A given form of social capital that is valuable in facilitating certain actions may be useless or even harmful for others' (*ibidem*). According to this approach, it seems virtually impossible to provide a single, universal, definition of what social capital is, and a unique, underlying, method of measurement to be used within the empirical research.

2. The idea that social capital is a multidimensional concept is now commonly accepted in the debate. This allows each author to focus on a particular aspect of the concept, according to the aims and scope of his own study. Empirical work tends to address different dimensions of social capital, therefore adopting particular measures, derived from diverse data sources. This makes any general assessment difficult, due to incomparability in sampling designs and question wording (Wuthnow 2002). Furthermore, researchers cannot account for measurement error, which we would expect to find in the survey questions used to assess social capital (Paxton 1999).
  
3. Most empirical studies measure social capital through ‘indirect’ indicators, not representing the social capital’s key components already identified by the theoretical literature (commonly social networks, trust and social norms). Such indicators – for example, crime rates, teenage pregnancy, blood donation, participation rates in tertiary education – are quite popular in the empirical research, but their use has led to considerable confusion about what social capital *is*, as distinct from its *outcomes*, and what the relationship between social capital and its outcomes *may be*. Research reliant upon an outcome of social capital as an indicator of it will necessarily find social capital to be related to that outcome. Social capital becomes tautologically present whenever an outcome is observed (Portes 1998; Durlauf 1999). Of

course, from a lexical point of view, it is possible to attribute the ‘social capital’ label to every aspect of the economy’s social fabric providing a favourable environment for production and well-being. However, such definition poses a ‘logic’ problem: if social capital is everything that can make agents cooperate or markets work better, then any empirical analysis will find that social capital causes cooperation among agents and improves the efficiency of markets. This approach simply ‘sterilizes’ the social capital literature, making it unable to foster the explanatory power of economic studies addressing the socio-cultural factors of growth.

4. A great part of existing cross-national studies on the economic outcomes of social capital is based on measures of trust drew from the *World Values Survey* (WVS)<sup>2</sup>. The WVS’ way to measure generalized trust is the famous question developed by Rosenberg (1956): ‘Generally speaking, would you say that most people can be trusted or that you can be too careful in dealing with people?’. Possible responses to this question are: ‘Most people can be trusted’, ‘Can’t be too careful’, or ‘Don’t know’. The trust indicator resulting from this question is given by the percentage of respondents replying ‘most people can be trusted’, often after deleting the ‘don’t know’ responses. Trust measured through surveys is a ‘micro’ and ‘cognitive’ concept, in that it represents the

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<sup>2</sup> See for example Knack and Keefer (1997), La Porta, Lopez-de-Silanes, Shleifer and Vishny (1997), Zak and Knack (2001), Uslaner (2002), Beugelsdijk and van Schaik (2001), Bjørnskov (2003).

individuals' perception of their social environment, related to the particular position that interviewed people occupy in the social structure. The aggregation of such data, however, creates a measure of what can be called 'macro' or 'social' trust which loses its linkage with the social and historical circumstances in which trust and social capital are located. As pointed out by Foley and Edwards (1999), empirical studies based on cross-country comparisons of trust may be a *cul de sac*, because of their inability to address macro outcomes, in view of the absence of the broader context within which attitudes are created and determined. Fine (2001) argues that 'if social capital is context-dependent – and context is highly variable by how, when and whom, then any conclusions are themselves illegitimate as the basis for generalisation to other circumstances' (Fine 2001: 105).

Also studies focusing on social networks instead of social trust generally do not take into the appropriate account the multidimensional, context-dependent and dynamic nature of social capital. They usually analyze just one kind of network (for example voluntary organizations), which is considered as representative of the social capital concept as a whole, through a single measure. However, a simple descriptive analysis of available data allows us to point out that, even if they constitute just one aspect of the multifaceted concept of social capital, social networks are themselves a multidimensional

phenomenon. They are characterized by different aspects, which can be described by a composite set of multiple indicators.

5. Following Putnam's hints, most studies focus on voluntary organizations as a proxy for measuring social capital. The claim is that in areas with stronger, dense, horizontal, and more cross-cutting networks, there is a spillover from membership in organizations to the cooperative values and norms that citizens develop. In areas where networks with such characteristics do not develop, there are fewer opportunities to learn civic virtues and democratic attitudes, resulting in a lack of trust. However, there are several reasons to doubt the efficacy of social capital measures simply based on the density of voluntary organizations. Firstly, even though individuals who join groups and who interact with others regularly show attitudinal and behavioural differences compared to non-joiners, the possibility exists that people self-select into association groups, depending on their original levels of generalized trust and reciprocity. Secondly, the group experiences might be more pronounced in their impact when members are diverse and from different backgrounds. According to some authors, if diversity matters for socialization of cooperative values, then voluntary associations might not be the measure to take into account, as such groups have been found relatively homogeneous in character. Voluntary associations indeed generally recruit members who have already relatively high civic attitudes (Popielarz 1999; Mutz 2002; Uslander

2002). Moreover, in general, until now the literature has not provided a micro theory explaining trust's transmission mechanism from groups to the entire society, and the logic underlying the connection between social ties and generalized trust has never been clearly developed (Rosenblum 1998; Uslaner 2002). Thus, every finding on the correlation and/or the causal nexus connecting membership in civic associations to supposed social capital's economic outcomes must be handled with extreme caution.

### **The empirical literature on social capital and economic development: a critical review**

After the publication of *Making Democracy Work* by Putnam *et al* in 1993, economic research has produced a large volume of studies investigating the relationship between different aspects of the multidimensional concept of social capital and economic growth, usually represented by per capita income. For the purposes of this chapter, such an impressive amount of empirical studies can be partitioned into two main categories.

- a. Studies finding a positive relationship between social capital and economic development, but suffering from questionable methods for the measurement of social capital, as described in the five points listed in the previous section.



- b. Studies that, independently from the adopted measurement method, do not find a positive relationship between social capital and economic development, and some alternative, interesting, views.

***Putnam and his disciples: the empirical literature on the positive relationship between social capital and economic development***

The seminal study of this voluminous strand of the literature is the already cited 'Italian work' carried out by Putnam *et al* (1993). In that research, social capital is measured by means of four main indicators of:

1. the number of voluntary organizations, including, for example, sport clubs and cultural circles.
2. The number of local newspaper readers. The idea for using this indicator is that newspapers, in Italy, constitute the most effective means to get information on local communities' problems and events. People reading newspapers are thus better informed and more likely to get involved in community's life.
3. Voter turn-out at referenda. Since voting for a referendum does not imply immediate and direct advantages, such a behaviour cannot be founded on the pursuit of personal aims. Therefore it has to be considered as a signal of civic spirit or what, following Putnam, we can term 'civicness'.

4. The relevance of preference votes expressed by voters within political elections. This is interpreted as an indicator of civic backwardness, since, in the Italian political system, 'preference votes' have been historically used as a mean for establishing client relationships and to obtain patronage favours.

The authors find a positive and significant correlation between these indicators and local institutions' performance. Moreover, citizen-initiated contacts with government officials in the south tend to involve issues of narrowly personal concerns, while contacts in the more trusting regions tend to involve larger issues with positive implications for the welfare of the region as a whole. In a subsequent study, Heliwell and Putnam (1995) show that social capital, as measured through the same indicators, also positively affects the economic performance and, in the long run, the process of economic growth in the Italian regions. In the light of the arguments proposed previously in this chapter, it is possible to identify three main shortcomings in the 'Italian work'.

1. The study relies on 'indirect' indicators as social capital measures. The number of newspaper readers, voter turnout at referenda and preference votes are not directly related to social capital's key components, which Putnam himself identifies with 'Features of social life-networks, norms, and trust, that enable participants to act together more effectively to pursue shared objectives' (Putnam 1994: 1). As pointed out previously, this may lead to

considerable confusion about what social capital *is*, as distinct from its *outcomes*, and what the relationship between social capital and its outcomes *may be*. Research reliant upon an outcome of social capital as an indicator of it will necessarily find social capital to be related to that outcome. In this case, social capital - although previously defined by the authors as the complex set of trust and social networks - becomes tautologically present whenever an outcome, like newspaper diffusion and high voter turnout, is observed. The existence of such relationship is not proved, and neither analyzed, within the study.

2. The remaining indicator adopted by Putnam *et al* (2003) is a measure of the density of that particular type of social network shaped by voluntary organizations. Some problems related to this measure have been briefly described above. In particular, even admitting the possibility for associations to exert a positive influence on trust and development, we have to state that, until now, theoretical studies have not provided an explanation of the mechanism through which trust within groups generalizes to the entire society. Moreover, as already argued, an exploratory analysis of available data allows us to point out that, even if they constitute just one aspect of the multifaceted concept of social capital, social networks are themselves a multidimensional phenomenon. Recent studies carried out on the Italian case (Piselli 2001; Andreotti and Barbieri 2003; Nuzzo and Micucci 2003; Sabatini

2005b) show that social networks and, within social networks, voluntary organizations, are both characterized by different aspects, which can be described only by a composite set of multiple indicators, or by latent indicators synthesizing the different dimensions.

3. According to the measurements carried out by Putnam *et al* (1993), the areas of Italy with the best institutional performance were those with left-wing local governments. This variable could be considered able to provide better explanations for institutional performance. This poses the problem of the role of omitted variables in the Italian work and, more in general, in all empirical studies of social capital. Moreover, social capital may be endogenous to institutional and economic performance, rather than a cause of them. A serious attempt to overcome these shortcomings could be made through the use of structural equations models (SEMs) as a mean to carry out reliable empirical investigations accounting also for omitted variables (Sabatini 2006). SEMs allow the taking into account of the joint effect of unknown exogenous phenomena on variables explicitly considered in the model. In addition, this technique provides a better evaluation of the form and direction of the causal relationship linking social capital to its supposed outcomes, making it possible to account for potential reverse effects (Jöreskog and Sörbom 1979; Bollen 1989).

I consider these points ‘critical’ because they repeatedly present themselves again in most of the following literature in the field. Knack and Keefer (1997) and La Porta, Lopez-de-Silanes, Shleifer and Vishny (1997) use data from the *World Values Survey* (WVS) to conduct cross-country tests of Putnam’s hypotheses. These surveys include roughly 1000 respondents in each of several dozen countries, and are intended to be nationally representative. Trust values for each country are calculated as the percentage of respondents who agree that ‘most people can be trusted’ rather than the alternative that ‘you can’t be too careful in dealing with people’. Knack and Keefer (1997) find that trust and civic norms are unrelated to horizontal networks and have a strong impact on economic performance in a sample of 29 market economies, suggesting that, if declining social capital in the United States has adverse implications for growth, it is the erosion of trust and civic cooperation, as documented by Knack (1992), that are of greater concern than the decline in associational life emphasized by Putnam (1995a; 1995b). La Porta, Lopez-de-Silanes, Shleifer and Vishny (1997) test the relationship between trust, income and firms’ scale, regressing the revenues of the 20 largest firms as a proportion of GDP on per capita income, trust in people, and a measure of trust in family members. The authors find that the scale measure is unrelated to income, and strongly related to the two trust measures: positively for trust in people, and negatively for trust in family. These results are coherent with the early thesis of Banfield (1958) and, in particular, with the intuition of Fukuyama (1995), who stressed the relationship between social capital and industrial organizations. All these works have provided relevant hints to

social capital research, but they all suffer from their way of measuring social trust at the national level. As already stressed, trust measured by the WVS is a 'micro' and 'cognitive' concept, in that it represents the individuals' perception of their social environment, related to the particular position that interviewed people occupy in the social structure. The aggregation of such data creates a measure of what can be called 'macro' or 'social' trust which loses its linkage with the social and historical circumstances in which trust and social capital are located.

More recently, a notable study carried out by Guiso, Sapienza and Zingales (2004), focusing on the relationship between social capital and another aspect of economic prosperity, financial development, has received great attention in the economics debate. The authors' basic idea is that: 'One of the mechanisms through which social capital impacts economic efficiency is by enhancing the prevailing level of trust ... Since financial contracts are the ultimate trust-intensive contracts, social capital should have major effects on the development of financial markets' (Guiso, Sapienza and Zingales 2004: 527). The authors measure social capital through blood donation and electoral participation, claiming that both measures 'are driven only by social pressure and internal norms, i.e., the fundamental components of social capital' (Guiso, Sapienza and Zingales 2004: 528). As already pointed out, this study measures social capital through indicators of what could be considered as one of its outcomes. The authors claim to have found a positive and significant relationship between social capital and financial development, but they rather prove the existence

of a positive correlation between financial development, blood donation and electoral participation, without providing a credible explanation nor for such a relationship, neither for the supposed linkage between social capital and the variables adopted for its measurement.

***Is social capital necessarily good for economic development?***

Besides social capital's measurement problems, the empirical evidence on the linkage between economic prosperity and social capital is sometimes conflicting. Putnam (2000) and Costa and Kahn (2003) document the large decline in social capital in the United States in the twentieth century. However, it is hard to argue that the U.S. economy did not flourish over this same period. On the other hand, the decline itself of U.S. social capital has been widely questioned. For example, Paxton (1999) analyzes multiple indicators of social capital in the United States over a 20-year period. The results do not support Putnam's claims, showing instead some decline in a general measure of social capital, a decline in trust in individuals, but no general decline in trust in institutions, and no decline in associations.

The role of associational activity is a subject of greater contention. Putnam attributes the economic success and governmental efficiency of northern Italy, relative to the south, in large part to its richer associational life, claiming that associations 'instil in their members habits of cooperation, solidarity, and public-spiritedness' (Putnam *et al*

1993: 89-90). However, this cooperation and solidarity is invoked most commonly to resolve collective action problems at the level of smaller groups. If the economic goals of a group conflict with those of other groups or of unorganized interests, the overall effect of group memberships and activities on economic performance could be negative. Adam Smith noted that when ‘people of the same trade’ meet ‘even for merriment and diversion’ the result is often ‘a conspiracy against the public’ or ‘some contrivance to raise prices’<sup>3</sup>. Similarly, Olson (1982) observes that horizontal associations can hurt growth because many of them act as special interest groups lobbying for preferential policies that impose disproportionate costs on society. Putnam’s claims have been widely questioned also by empirical studies on Italy. In a recent paper, Peri (2004) provides a measure of social capital as civic involvement, given by the first principal component of three variables representing associational density, newspaper readers and voter turnout at a particular referendum. The author finds a positive correlation of civic involvement with measures of economic development in the raw data, but attributes it mostly to North-South differences: the correlation in fact does not survive checks of robustness and the inclusion of geographic controls. It is noteworthy that Peri’s (2004) measurement of social capital follows a conceptual pathway very similar to that already covered by Putnam *et al* (1993), and suffers from the shortcomings described earlier.

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<sup>3</sup> This quotation is taken from Knack and Keefer (1997).



Kefer and Knack (1997) provide some evidence for the conflicting influences of associational activity on growth, using a variable from Banks and Textor (1963) called 'interest articulation' which assesses (on a subjective scale ranging from 1 to 4) how effectively groups articulate their policy preferences to government. Although the ability of groups to articulate their interests is likely to be an important restraint on government, it also provides groups a way to capture private benefits at the expense of society. Consistent with the view that these two effects tend to counteract each other, 'interest articulation' proves to be an insignificant predictor of growth when introduced into Barro-type cross-country tests. As pointed out in the previous section, Knack and Keefer (1997) find that trust and civic norms are unrelated to horizontal networks and have a strong impact on economic performance in a sample of 29 market economies.

Helliwell (1996) shows that trust, and an index of group memberships, are each negatively and significantly related to productivity growth for a sample of 17 OECD members. This sample omits the poor and middle-income nations for which trust has the largest effects.

The complexity of the relationship between social capital and growth is even more evident at the theoretical level. In particular, it is possible to argue that economic growth could be itself a factor of social capital's destruction: if people devote too time to work and consumption, therefore sustaining growth, little time remains for

social participation. Rottmann and von Amsberg (2003) show that the process of economic growth is generally accompanied by higher labour turnover, which changes the social structure increasing heterogeneity and affecting social capital. The authors focus on social capital as the aspect of the social structure influencing cooperative behaviour. In larger communities, which grow faster or are more efficient, social capital can deteriorate, making cooperative trade generally harder to sustain. By contrast, reduced labour mobility, which results in decreased labour efficiency, increases welfare by increasing the proportion of trades that are cooperative. In other terms, 'the benefit of the increased social capital can outweigh the cost of lost efficiency' (Rottmann and von Amsberg 2003: 172). This result is supported by Alesina and La Ferrara (2000), who show that in heterogeneous communities participation in groups that require direct contact among members is low, arguing that such a decline destroys social trust, therefore hampering economic growth. This study contains an interesting empirical result about substitution between social and private activities. The authors show that, controlling for individual and community level variables, 'moving from a full-time to a part-time job increases the propensity to participate' (Alesina and La Ferrara 2000: 880): working more brings about a reduction in social participation. Costa and Kahn (2003) show that this process has been particularly relevant for women in the last half century, since the enormous increase in their labour force participation rate, in the U.S. as well as in other advanced societies, has subtracted from them much time previously available for social activities. Devoting most time to work and consumption can also be interpreted

as a 'defensive choice': Antoci, Sacco and Vanin (2002) argue that the individual utility of social participation depends both on one's own and on aggregate participation, as well as on the opportunities available in the social environment. Agents may 'defend' themselves from a poor social environment by shifting to private activities, less exposed to external effects. The authors show that: 'If this strategy spreads over, private activities will be fostered, but at the expense of social activities. Since both effects accumulate over time, the outcome may be a joint occurrence of economic growth and social poverty' (Antoci, Sacco and Vanin 2002: 23). By contrast, spending more time in social activities can lead to a richer social environment, but may act as an obstacle to private growth. However, the political science literature widely shows that social participation can foster the diffusion of trust (Almond and Verba 1963; Brehm and Rahn 1997; Stolle 1998; Stolle and Rochon 1998; Hooghe and Stolle 2003), therefore indirectly supporting economic growth. In other terms, it is possible to argue that, if economic growth destroys social participation and trust, it can run faster, but is not sustainable in the long run.

All empirical studies reported in former two sections present also a further, critical, limit: they do not take into appropriate account the very multidimensionality of the concept of social capital. Therefore, ignoring fertile insights provided by the sociological literature, the economics research on the empirics of social capital generally neglects the necessary distinction between different forms of social capital, e.g. 'bonding' and 'bridging social capital'. Studies in this field generally consider

just from one to three of social capital's dimensions for carrying out empirical investigations on their effects on a few, definite, outcomes. According to such a limited scope of analysis, these studies in turn conclude that social capital is good or bad for economic growth.

### **Concluding remarks**

Social capital is a multidimensional concept. Its most effective definition is that provided by Coleman, who stated that '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 in some aspect of social structures, and they facilitate certain actions of actors within the structure' (Coleman 1988: 98). Such a vague definition however makes every attempt of empirical analysis difficult and hazardous. The review of measurement methods carried out in this paper has pointed out six main weaknesses affecting almost all the empirical studies:

1. there is not a single, universal, definition of what social capital is, and a unique, underlying, method of measurement to be used within the empirical research.
2. The use of different definitions, diverse indicators from various data sources, makes any general assessment difficult, due to incomparability in sampling designs and question wording.

3. The use of measures of trust drawn from the *World Values Survey* leads to the creation of indicators of ‘social’ trust losing their linkage with the social and historical circumstances in which trust and social capital are located.
4. The use of ‘indirect’ indicators, not representing social capital’s key components as identified by the theoretical literature, may be misleading, and causes a considerable confusion about what social capital *is*, as distinct from its *outcomes*, and what the relationship between social capital and its outcomes *may be*.
5. The difficulty of accounting for the multidimensionality of each of social capital’s diverse facets, such as social networks.
6. The weakness of social capital measures simply based on the density of voluntary organizations.

Of course, from a lexical point of view, it is possible to attribute the ‘social capital’ label to every aspect of the economy’s social fabric providing a favourable environment for production and well-being. Still, such an approach poses a ‘logic’ problem: if social capital is everything that can make agents cooperate or markets work better, then any empirical analysis will find that social capital causes cooperation among agents and improves the efficiency of markets. This approach simply ‘sterilizes’ the social capital literature, making it unable to foster the explanatory power of economic studies addressing the socio-cultural factors of growth. The survey of the literature carried out in this paper points out:

- (a) the need to acknowledge the multidimensional nature of social capital. It does not make sense taking into consideration just a single dimension, considering it as representative of the concept as a whole, and analyzing its effect on economic performance. By contrast to what to date has been done by most cross-country studies, we have to be very cautious in carrying out international comparisons relying just on a single basic indicator (like trust levels). Each of social capital's dimension may exert diverse effects on economic variables, in turn fostering or hampering growth and development. The need emerges to distinguish at least between 'bonding' and 'bridging social capital'. Bonding social capital is shaped by social ties fostering the pursuit of narrow - sometimes sectarian and contrasting with community's well-being - interests, and hampering the diffusion of knowledge and information. Bridging social capital is composed of weak ties, building bridges and connections between different types of networks, therefore fostering knowledge diffusion and socioeconomic progress.
- (b) The expediency of focusing just on structural key dimensions of the concept, therefore excludes by such measurement the toolbox of all indicators referring to social capital's supposed outcomes. Some recent studies advance the possibility to focus on social networks, rather than on measures of perceived trust or on hazardous 'indirect' indicators. Such a strategy can foster the robustness of analysis without causing a relevant loss of generality. In this

case, however, we must remember the existence of different types of social networks. Some of them do not necessarily play a positive role in the process of economic development and, at the micro level, in the agents' everyday lives.

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