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by

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**Abstract**

*This paper evaluates key developments in the social capital literature over the past decade. It then examines empirical work on the purported the link between social capital and economic performance. Although these results indicate that good governance and social cohesion make a measurable contribution to economic development, the offer little guidance for policy formulation. Early contributors to the social capital field were pessimistic about the ability of the state to stimulate social capital formation. More recently, there has been a groundswell of interest in the application of community development principles to foster social capital at the micro level. This paper incorporates a critical evaluation of the mainstream social capital literature from a social economics perspective. The various strands within the social economics tradition share a common concern with the "disembedding" of social context from mainstream economics.*

**Key Words:** Development, social economics; social capital; state capacity.

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# Social Economics and Social Capital

"What is good, Phædrus, and what is not good ... need we ask anyone to tell us these things?" – *Zen and the Art of Motorcycle Maintenance: An Inquiry into Values* (Robert M. Pirsig, 1975).

## Introduction

During the past decade there has been an extraordinary outburst of research by economists, political scientists and sociologists into the definition and measurement of social capital. This has been largely motivated by academic and policy interest in the explanatory power of social capital with regard to spatial variation in economic and institutional performance. The emerging body of theory has been hailed as a critical link between the fields of economics, sociology and political science, signifying a re-convergence to consideration of "the economy" within a complex social and institutional environment. According to Paldam (2000, p. 631), social capital is "close to becoming a joint concept for all social sciences." The burgeoning literature has exerted a major influence on the ideas that shape development policy. The World Bank, which previously followed and promoted a markedly neo-liberal approach, now acknowledges social capital as a useful tool for poverty reduction (World Bank, 1998).

This paper critically examines the main lines of development in the social capital literature. It is argued that the empiricists' treatment of social capital indicators as independent variables in neoclassical growth functions makes an unrealistic assumption that social and institutional phenomena can be considered as one- or two-dimensional concepts. Social and institutional phenomena are not *k*-dimensional in reality. Instead, the complex set of relations and motivations that comprise the concept called social capital are highly context-dependent. The practice of modeling social capital, although valuable for the tentative confirmation of current and future theories, can be of little further use in investigating such an inherently micro-level concept. Social economists are likely to be more receptive to certain sociological interpretations of social capital as a context-dependent and policy-responsive phenomenon. The acknowledgement of context, without resort to abstraction, is a distinguishing feature of the social economics tradition.

## Developments in the conceptualization of social capital

The earliest use of the phrase social capital has been ascribed to Hanifan (1916, p. 130), who argued that local school performance could be enhanced by "those tangible substances that count for most in the daily lives of people: namely good will, fellowship, sympathy, and social intercourse among the individuals and families that make up a social unit .… If an individual comes into contact with his neighbor, and they with other neighbors, there will be an accumulation of social capital, which may immediately satisfy his social needs and which may bear a social potentiality sufficient to the substantial improvement of living conditions in the whole community." There are two key features of this explanation that are maintained throughout subsequent interpretations. First, that goodwill, fellowship, and other social attributes have an instrumental value in terms of measurably improved living conditions. Second, that social capital has both private benefits and positive externalities. Woolcock and Narayan (2000, p. 229) present the following brief overview of the subsequent history and current field of application of social capital:

> After Hanifan the idea of social capital disappeared for several decades but was reinvented in the 1950s by a team of Canadian urban sociologists (Seeley, Sim and Loosely, 1956), in the 1960s by an exchange theorist (Homans, 1961) and an urban scholar (Jacobs, 1961), and in the 1970s by an economist (Loury, 1977). None of these writers, interestingly, cited earlier work on the subject, but all used the same umbrella term to encapsulate the vitality and significance of community ties. The seminal research by Coleman (1988) on education and by Putnam (1993) on civic participation and institutional performance, however, has provided the inspiration for most of the current work, which has since coalesced around studies in nine primary fields: families and youth behavior; schooling and education; community life (virtual and civic); work and organizations; democracy and governance; collective action; public health and environment; crime and violence; and economic development.

Although we will argue that the sociological concepts of social capital formulated by Bourdrieu (1986) and Coleman (1988) provide a more promising foundation on which social economists can build, mainstream economists have been particularly influenced by the work of Putnam (1993) on associational activity. Putnam highlighted a long-standing variation in the propensity for civic engagement that distinguishes regions in Northern and Southern Italy. This tradition is contemporaneously reflected in high levels of participation in sports clubs, voluntary organizations, choral societies and other forms of informal association, but the underlying pattern of social cooperation goes back to the thirteenth century. Putnam's thesis is that this historical variation in civic engagement reflects differences in social capital that significantly contribute to the persistent gap in economic outcomes and governmental effectiveness between Northern and Southern Italy.

The notion that a community's stock of interpersonal networks and civic associations can have a measurable impact on its capacity to solve collective action problems is intuitively appealing. Although some economists remain critical of the concept of social capital as an economic phenomenon, they could not deny that Putnam was "trying to get at something difficult, complicated, and important: the way a society's institutions and shared attitudes interact with the way the economy works. It is a dirty job, but someone has to do it; and mainstream economics has puristically shied away from the task" (Solow, 1999, p. 6).

The measurement process begins, as always, by defining a concept that unites several phenomena. Putnam's definition of social capital is the "features of social organization, such as trust, norms, and networks that can improve the efficiency of society by facilitating co-ordinated actions" (1993, p. 167). A similar definition is presented in Table 1, along with a breakdown of its various cognitive and relational dimensions.

*Table 1: The structural and cognitive dimensions of social capital*

| | Structural | Cognitive |
|---|---|---|
| Sources and manifestations | Roles and rules<br>Networks and other interpersonal relationships<br>Procedures and precedents | Norms<br>Values<br>Attitudes<br>Beliefs |
| Domains | Social organization | Civic culture |
| Dynamic factors | Horizontal linkages<br>Vertical linkages | Trust, solidarity, cooperation, generosity |
| Common elements | Expectations that lead to cooperative behavior<br>That, in turn, produces mutual benefits | |

Source: Uphoff, 1999, p. 221

There have been some concerns over Putnam's definition, in particular the fact that it is not parsimonious or robust, and that it attempts to "amalgamate incommensurable objects" (Dasgupta, 1999, p. 327). In identifying the key components of social capital as networks of civic engagement, social trust and norms of generalized reciprocity, Putnam begs the question as to which components are "epiphenomenal, arising as a result of social capital but not constituting social capital itself" (Fukuyama, 2001, p. 7). Although Putnam (2000, p. 137) later states that "the causal arrows among civic involvement, reciprocity, honesty and social trust are as tangled as well-tossed spaghetti", his 1993 analysis clearly suggests that cooperative norms and social trust are externalities accrued through participation in networks of civic engagement. His argument is that through repeated interaction in networks which "are primarily 'horizontal' bringing together agents of equivalent status and power", social norms are "inculcated and sustained by modeling and socialization (including civic education) and by sanctions" (Putnam, 1993, pp. 171-2). The most important of these norms from a societal perspective is a generalized reciprocity that "refers to a continuing relationship of exchange that is at any time unrequited or imbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future" (p. 172).

If social capital is defined as an aggregate of associational activity, as Putnam has suggested, then a proxy measure ("Putnam's Instrument", as it has come to be known) can be relatively simply determined "by asking people how many organizations they belong to, and by asking the organizations how many members they have" (Paldam, 2000, p. 645). Putnam's proposal to measure social capital in this way provided one of the key breakthroughs that precipitated the explosion of academic interest in the topic. According to Paldam (p. 636), "it appears to be precisely because Putnam proposed such a simple and operational proxy that social capital moved from being a speciality for network sociologists into a major research topic for many professions."

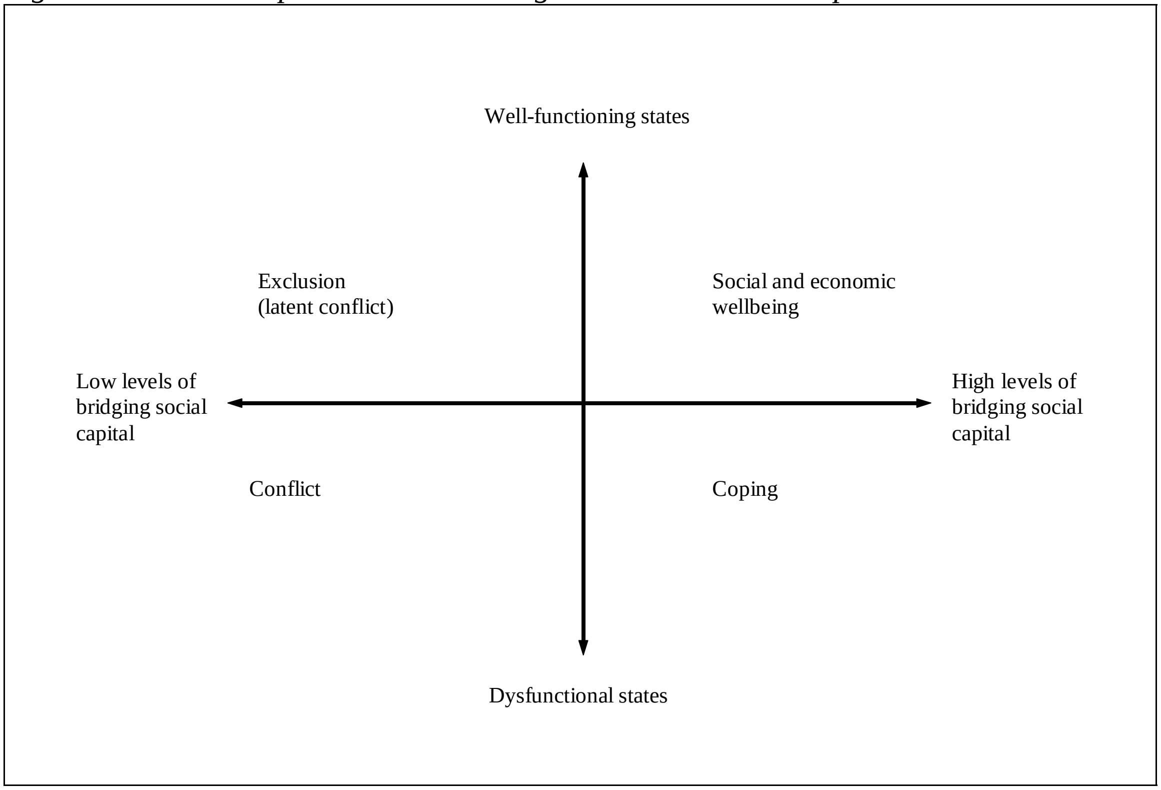
There have been a number of specific criticisms directed toward Putnam's Instrument. One relates to the lack of clarity as to what constitutes a civic association. For instance, one could argue that kinship groups, commercially focused associations and non-profit service providers all facilitate coordinated action and should thus be counted within Putnam's Instrument. Paldam (p. 646) proposes that "the only operational solution ... is to use what the respondents think. Even if an organization was set up originally by the State, it is a voluntary organization now if people think it is". A second criticism is that, in its simplest form, Putnam's Instrument ignores variations in the intensity of contact members have with different associations. Some organizations comprise many people who cannot readily recall that they are members, while others demand significant commitment from a few core members. Following Fukuyama (1997), the World Bank (1999) has proposed that when Putnam's Instrument is weighted to allow for this variation in the intensity of contacts, it could become a more powerful explanatory variable. The operationalization of this suggestion is by no means straightforward.

It is also recognized that many networks of association do not necessarily foster increased social trust and cooperation, and that some lead to inter-group distrust (Banfield, 1958; Fukuyama, 1995; Durlauf, 1999; della Porta, 2000). These may be rent-seeking organizations, or associations that engage in racist, criminal or violent activities. Furthermore, Cohen and Fields (1999) argue that in the specific case of Silicon Valley, social capital is abundant despite the noticeable absence of high levels of civic engagement. Their argument is that the performance-focused trust that prevails in Silicon Valley is different from that found in civically engaged communities, but is no less valid a form of social capital. Knack and Keefer (1997) and Killerby (2001) report evidence from different waves of the World Values Survey (Inglehart *et. al.*, 2000) that neither civic engagement nor trust in "your family" has a strong correlation with trust in strangers.

In order to develop an unambiguously non-negative definition of social capital it is important to recognize the "weak ties" (Granovetter, 1973), otherwise referred to as the "radius of trust" (Fukuyama, 1997) or "bridging social capital" (Woolcock and Narayan, 2000), that extend across sub-groups in society. Hence, the compilation of a theoretically consistent version of Putnam's Instrument requires the aggregation of information on the number of civic associations, membership in each organization, variations in intra-group cohesion, and inter-group positive externalities of trust and reciprocity.

Finally, while Putnam (1993) treats formal institutions as distinct and separable from informal associations, there has been a growing consensus among World Bank and OECD researchers that social capital is comprised of both a "civil" component and a "governmental" component (Collier, 1998; Ahn and Hemming 2000). Civil social capital encompasses levels of generalized trust, norms of cooperation, and networks of association. Governmental social capital relates to the effectiveness of formal institutions in facilitating collective action. Figure 1 illustrates that civil and governmental social capital may be either complementary or supplementary in a given locality. The absence of effective formal institutions may lead to greater reliance on informal networks, as in the "hourglass" societies of the former Soviet states (Rose, 2000). Conversely, a stable and effective institutional environment may reinforce the cohesiveness of civil society (Knack and Keefer, 1995; Grootaert, 1998). There is also evidence that a cohesive civil society may facilitate the establishment of larger and more effective institutions (Fukuyama, 1995; La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1999; Aron, 2000).

*Figure 1: Relationship between civil and governmental social capital*




Source: Woolcock and Narayan, 2000, p. 237

The recent interest in governmental effectiveness reflects an effective "capture" of social capital by mainstream economists. Many researchers now tend to define social capital is broad terms, including all cognitive, relational and political features of society that facilitate collective action. The next section discusses how this broad conception has been tested within orthodox economic theory.

## Social capital and economic performance

Standard models of economic production suggest several mechanisms through which social capital may have an effect. Consider a function of output per worker as shown in equation (1) (Hall and Jones, 1999, pp. 87-88), where $y_i$ is output per worker in country $i$, $Y_i$ is total output, $K_i$ is the stock of physical capital, $L_i$ is labor, $H_i$ is the total stock of human capital, and $A_i$ is a measure of technology:

$$(1) \qquad y_i = \left(\frac{K_i}{Y_i}\right)^{\alpha/(1-\alpha)} \left(\frac{H_i}{L_i}\right) A_i$$

Implicit within equation (1) is the existence of a market economy that facilitates the generation of profits, wages, and returns to capital that provide incentives for production. In the presence of market failure, alternative incentives may be provided through government rules and sanctions and through the imposition of taxes to fund public goods.

In the presence of both market failure and government failure, such incentives may be provided through the cooperative norms and social sanctions inherent in civil society. Each of these mechanisms can also be complementary.

Despite two countries having functional market economies, similar technologies and equivalent stocks of physical and human capital, their levels of production may diverge due to differences in institutional effectiveness and societal norms. The direct productivity effect of social capital is shown in equation (2) as a scaling factor ($S_i$) of the entire production function, where $S_i$ represents, say, a version of Putnam's Instrument based on membership tallies in voluntary organizations, survey results of social trust, and subjective assessments of governmental effectiveness. The literature identifies a number of means through which social cohesion and governmental effectiveness may directly facilitate increased productivity. For instance, they may facilitate coordination in complex production processes (Dayton-Johnson, 1999), lead to the diffusion and early adoption of new technology (Rogers, 1983), and enable more time to be spent on innovation rather than monitoring and enforcing contracts and property rights (Knack and Keefer, 1997). Mauro (1995) argues that efficient and honest institutions will facilitate the distribution of permits and licenses, thereby increasing the rate of technological progress. Transaction costs will be mitigated in high-trust societies because less explicit contracts will be required and fewer infringements will occur. Social capital may also enhance total factor productivity by facilitating the development of effective institutions and economies of scale (Fukuyama, 1995). Using cross-country data, La Porta *et. al.* (1997) find a strong statistical relationship between social trust and the presence of large organizations.

$$(2) \qquad y_i = \left\{ \left( \frac{K_i}{Y_i} \right)^{\alpha/(1-\alpha)} \left( \frac{H_i}{L_i} \right) A_i \right\} S_i$$

Social capital may also facilitate production through greater provision of public goods, improved management of common property resources, and lower social costs. Civic-mindedness acts as a constraint on narrow self-interest, leading to a greater provision of public infrastructure (Knack and Keefer, 1997). Theory and case study evidence suggests that common property management is most effective when individual incentives are aligned with those of the wider group. Narayan and Pritchett (2000) report that Tanzanian villages with higher levels of social capital are more likely to have undertaken community road building activities and adopted modern agricultural practices.

In addition to its direct effect on productivity, social capital may have an indirect effect via increased human capital accumulation, illustrated in equation (3), through greater investment in the public education system, greater community participation in the management of schools, and greater access to informal credit for the poor (Colleta, 1995; Knack and Keefer, 1997). Coleman (1988) finds that social capital is related to lower student dropout rates. Narayan and Pritchett (2000) present evidence that social capital is associated with higher reported levels of parental participation in schools and higher levels of school quality. Goldin and Katz (1998, p. 26) report that in the United States:

"greater homogeneity of income or wealth, a higher level of wealth, greater community stability, and more ethnic and religious homogeneity fostered high school expansion from 1910 to 1930". The implication is that social homogeneity and community stability fostered human capital accumulation in the US because they formed the basis for high levels of social capital. In addition to the direct influence of social capital on human capital investment, employers' hiring decisions in high-trust societies may be more influenced by educational credentials and less by kinship or personal association, leading to a higher rate of return on human capital investment (Fukuyama, 1995).

(3) $$y_i = \left(\frac{K_i}{Y_i}\right)^{\alpha/(1-\alpha)} \left(\frac{(H_i S_i)}{L_i}\right) A_i$$

Social capital may also facilitate the net accumulation of physical capital, as shown in equation (4). Domestic investment and savings rates are likely to be higher under conditions of socio-political stability and greater financial certainty (Alesina, Özler, Roubini and Swagel, 1992). Guiso *et. al.* (2000) examine data from different parts of Italy and find that in areas with high levels of social trust, households invest less in cash and more in stocks, use more checks, and have better access to institutional credit. The results are robust after controlling for per capita income, the quality of legal enforcement and other environmental factors. Firms in high-trust areas are also more likely to have multiple shareholders. The success of tontines (group-based lending schemes) is well documented (Grootaert, 1998). In addition, quality of governance is a key determinant in the attraction of foreign investment (Rodrik, 1999).

(4) $$y_i = \left(\frac{(K_i S_i)}{Y_i}\right)^{\alpha/(1-\alpha)} \left(\frac{H_i}{L_i}\right) A_i$$

In summary, the results to date confirm that social capital may result in capital accumulation, skill acquisition, innovation, the transfer of information and technology, and reduced transaction costs (Hall and Jones, 1999). In addition, social capital may facilitate the management of common property and provision of public goods, increase investment, and reduce the social costs of crime, corruption and other forms of non-cooperative conduct. Alternately, *low levels* of social capital may impede economic activity by limiting the viable range of transactions (including the exchange of ideas), particularly in an environment of social polarization (e.g. income inequality or ethnic tension). The evidence to date also indicates that social capital has a diminishing marginal rate of return (i.e. social capital is more valuable in developing countries).

The analysis above is aggregate and mechanistic, reflecting the Aristotelian tradition that has formed the basis for the development of mainstream economics. It assumes in the first instance that social capital can be measured as a distinct entity. Social economists are likely to have a number of issues with this empirical approach, as discussed in the following section.

**A critical perspective on social capital theory**

Social economics has been characterized as values-directed, ameliorative, activist, holistic and organic (Dugger, 1977, pp. 306-8). Its proponents tend to attach a high priority to analyzing and recommending solutions to the problems of the economically and socially disadvantaged (Hill, 1990, p. 159). Most social economists are likely to be philosophically and methodologically skeptical of the practice of treating social capital as an independent variable in a production or growth function.

In the first place, this ascribes a purely instrumental value to the propensity for civic engagement in a particular locality. The value that society attaches to social capital is likely to be significantly greater than its measurable impact on GDP. There is an increasing body of evidence that shows social cohesion and institutional effectiveness facilitate literacy and education, mitigate the effects of poverty, improve public health, and reduce crime and violence. There is further evidence that social cohesion is positively related to mental health outcomes and self-reported happiness (Killerby, 2001). Sen (1999) asserts that different types of freedom, including the freedom of social interactions based on trust, have considerable intrinsic value.

Secondly, the mechanistic incorporation of social capital proxies into production functions is subject to the same criticism that Hill (1990, p. 159) directs toward neoclassical models in general:

> Orthodox economists frequently use a model to explain economic causation. First, they select the dependent variable and the independent variable; next these variables are abstracted from reality through the use of extremely restrictive counterfactual assumptions in order to derive a first approximation of the conclusion. Then, additional dependent variables are added in sequence as the counterfactual assumptions are relaxed in order to achieve a closer approximation to reality. Social economists reject these models of the economy because they are mechanical and additive; they believe socio-economic models should be organic and cumulative.

Related to this, statistical research on social capital is necessarily based on single proxies or aggregated indices, which results in considerable loss of the subjective context from which the data are derived. Foley and Edwards (1999, pp. 150-152) argue as follows:

> Even when 'generalized social trust' is taken as survey respondents' assessments of the trustworthiness of their social environment, aggregate scores at the national level can tell us little to nothing about what social groups enjoy trustworthy environments under what circumstances …. High levels of 'generalized social trust', absent information about who has access to such trust under what conditions, can tell us little. Context counts . . . and counts crucially …. Interpersonal trust is certainly important at the level of the firm, organization or neighborhood. But the sort of aggregate national measures employed in cross-national studies ... mask very real differences within societies between the affluent and the poor, white and black, dominant ethnic groups and the marginalized, and political winners and losers .…

In its simplest form, the economic production function consists of two quantifiable variables, capital and labor, which are each an abstraction from reality. The motivating force for production by an individual (i.e. utility maximization) is also an abstraction, and is sufficiently values-deficient to make social economists cringe. Over the past decade in particular, mainstream economists have been seeking to loosen the assumptions of the basic economic model by re-attaching *context*, including attempts to measure stocks and flows of human skill and expertise, innovation, culture, and social organization. However, as economists have ventured further from their initial abstraction it has become evident that social context is not a *k*-dimensional phenomenon. Some researchers have used analytic techniques that allow them to measure social capital as an unobservable variable, but this still assumes that the social capital "stock" in one spatial area can be meaningfully compared with another.

In a world in which context matters, abstract models have limitations. However, scope exists for further development of the context-dependent and social-structural concepts of social capital formulated by Bourdrieu and Coleman. The next section considers these concepts, and invites social economists to assess whether they provide an adequate theoretical foundation on which to build.

**Sociological concepts of social capital**

Before Putnam's (1993) specific definition of social capital was popularized, Bourdrieu (1986) and Coleman (1988) had advanced similar conceptions. According to Bourdrieu (1986, pp. 248-9), social capital is "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition … which provides each of its members with the backing of the collectivity-owned capital, a 'credential' which entitles them to credit, in the various senses of the word". In Bourdrieu's sociology, economic and social outcomes are shaped by differential access to various forms of capital, including social capital, rather than by individual utility-maximizing behavior. The degree to which individuals can overcome economic disadvantage is related in part to the "volume of the social capital possessed by a given agent", which in turn depends on "the size of the network of connections he can effectively mobilize and on the volume of the capital (economic, cultural or symbolic) possessed in his own right by each of those to whom he is connected" (p. 249). Although Coleman (1988) sought to build his notion of social capital on rational choice rather than Durkheimian micro foundations, he too stresses the role of social relationships in gaining access to resources that are otherwise unavailable.

From the perspective of Bourdrieu and Coleman, cognitive factors, such as trust and norms of reciprocity, are treated as outcomes of *specific* social relations. Coleman focuses on trust as a feature of the particular context in which individuals or groups can be trusted, rather than the "generalized social trust" that has been the primary concern of most economists and political scientists. By directing attention to social structures and the access they provide to resources, these sociological concepts suggest that external actors may intervene to foster social capital within specific communities. This conclusion requires a paradigm shift from consideration of social capital as a macro concept to one that is inherently micro in nature. The distinction between "bonding" and "bridging" social capital (Gittell and Vidal, 1998; Woolcock and Narayan, 2000) is germane in this regard.

*Bonding social capital and bridging social capital*

Bonding social capital refers to the intra-community ties that members can depend on in situations of need. Such ties can be a source of valuable services, ranging from house minding to job referrals and emergency cash. In a recent study of poor communities in rural areas of northern India, Kozel and Parker (2000) found that social groups perform essential protection, risk management and solidarity functions. Barr (1998) reports that local entrepreneurs operating in traditional industries in Africa form "solidarity networks" to exchange personal information about members' conduct and intentions.

There is a considerable amount of case material and other evidence that confirms the role of personal social networks as a source of access to resources. However, bonding social capital is a double-edged sword. As Woolcock and Narayan (2000, p. 231) point out: "There are also costs in that these same ties can place considerable noneconomic claims on members' sense of obligation and commitment, with negative economic consequences. Group loyalties may be so strong that they isolate members from information about job opportunities, foster a climate of ridicule toward efforts to study and work hard, or siphon off hard-won assets". Moreover, there is an abundance of empirical evidence from developing countries, such as Kenya (Narayan and Nyamwaya, 1996), Rwanda (World Bank, 1989) and Haiti (White and Smucker, 1998), that suggests that high levels of social solidarity within impoverished local communities generate sufficient social capital to help them cope with – but not overcome – the negative effects of governmental corruption, geographical isolation, political exclusion and social polarization.

From this empirical work, Woolcock and Narayan (2000, p. 227) draw the lesson that "the poor ... may have a close-knit and intensive stock of 'bonding' social capital that they can leverage to 'get by' but they lack the more diffuse and extensive 'bridging' social capital deployed by the nonpoor to 'get ahead'." Bridging social capital refers to the inter-community ties which cross social divides, like ethnicity, gender and socio-economic status. Although these are unlikely to be as strong as the intra-community ties that give rise to bonding social capital, it would seem that a combination of both is required to open up a path of economic advancement. This occurs when mechanisms are in place that allow individuals to maintain their personal networks (their bonding social capital) for informal support, insurance and credit, but also to acquire the skills and resources to participate in networks that transcend this community (their bridging social capital), and thereby progressively join the economic mainstream (Granovetter, 1995).

*Governance, participation and social capital*

The capacity of communities to draw from and maintain social capital in both its bonding and bridging forms depends to some extent on the capacity of the state to mitigate the effects of market failures, enforce the rule of law, and uphold civil liberties and political rights. Governments may also play a more activist role in social capital investment by forging dynamic alliances and partnerships between and within state institutions and civil society (*World Development*, 1996; Woolcock and Narayan, 2000). The goal is to establish a complementary relationship between governmental and civil social capital, so that the synergy between state and citizen action ameliorates resource access problems and creates a virtuous circle of social, institutional and economic improvement.

Evans (1996) argues that these synergies are most effectively achieved when the relations between citizens and public officials do not just reflect "complementarity" but also "embeddedness". Embeddedness (Granovetter, 1995), or "linking" social capital (Woolcock and Narayan, 2000), refers to the nature and extent of the ties connecting the civil and political spheres. For example, studies of the performance of irrigation projects in developing countries have shown that in those schemes in which "the lowest-level irrigation officials are from the community being served; they are enmeshed in local social relations and hence are under pressure by the community to perform and be responsive to them" (Woolcock and Narayan, 2000, p. 236). Ostrom (2000) presents evidence that rudimentary farmer-governed irrigation systems in Nepal exhibit better equity of water delivery and greater agricultural production than modern systems that have been designed and funded by outside sources. The concept of embeddedness reflects a relatively horizontal distribution of power relations that fosters mutual trust and cooperative norms between citizens and the state.

Polanyi (1957) argued that *dis*embeddedness is a paradigm uniquely attributable to capitalist societies. He contends that pre-capitalist societies had no distinct "economy" as such, and productive activity was motivated by individuals' general social interest. The motive of "utility maximization" or self-gain was only one thread in a complex social system. Behavior was motivated and constrained primarily by a range of phenomena that we have subsequently come to define as social capital. Since the advent of capitalism, citizens' lives, values and perceptions have been increasingly shaped by market incentives and economic change. Stanfield (1990, p. 321), expanding on Schumpeter's concept of creative destruction, notes that "the destruction of existing economic ways and means necessarily disrupts and displaces existing political, social, and cultural ways and means". Thus, "the friendships, family ties, and civic roots of the working class are no match for the necessity of relocation to secure employment or career advance". Social capital therefore has fragile spatial and temporal characteristics that require nurturing at the grass-roots level.

The institutions of local governance play an important role in the development of complementarities between governmental and civil social capital. The accessibility and visibility of officials at this level means they are more likely to have relations of embeddedness with local citizens. There are a number of ways in which the creation and mobilization of social capital can be shaped by institutions of local governance, as discussed below.

To begin with, the relationships between local authorities and voluntary associations are significant in their own right, given the potential these latter organizations have for nurturing social capital. The overall level of voluntary activity in an area may be boosted by local government through the extension of grants, contracting out of services, and collaborative engagement in multi-organizational partnerships (Bailey, 1999; Wallis and Dollery, 2001). However, care must be taken to ensure these relationships do not selectively discriminate against particular activities (such as campaigning or self-help initiatives) or types of association (such as small, informally organized voluntary groups). There is a danger that local government policies and activities may encourage processes of "isomorphism" among insider associations to take on the characteristics of their sponsors, such as scale and bureaucracy (Hood, 1998, p. 202), while outsider associations may be subject to systematic exclusion (Lowndes and Skelcher, 1998, p. 327).

Secondly, the prospects for the formation of new associations and new stocks of social capital may be influenced by the degree to which local bodies engage in participatory governance. Different methods of providing for citizen participation appear to vary in terms of their impact on social capital formation. Lowndes and Wilson (2001, p. 637) argue that:

> Opinion polls and satisfaction surveys probably contribute little to stocks of social capital. Public meetings and consultation exercises, however, may serve to inform citizens and provide them with opportunities to meet one another, thus facilitating community networks and even the formation of new associations. Participation opportunities that involve more in-depth or longer-term deliberation (such as citizens' juries or community forums) may actually create social capital in the sense of developing norms of trusts and reciprocity that facilitate future collective action.

Of course, institutions must take care when they involve citizens and associations in policy formulation that they do not raise expectations beyond what can be delivered, or subsequently ignore the views of participants (Seargent and Steele, 1999). If this occurs, the potential social capital involved may be not only dissipated, but also considerably reduced.

Thirdly, institutions of local governance may affect not just the overall level of public participation in policy making, but also the distribution of opportunities to participate among different social groups. Lowndes *et. al.* (1998) find that young people prefer focus groups to questionnaires, while parents of young children find it difficult to attend meetings held in the early evening. The use of context-laden consultation techniques, such as focus groups or Participatory Appraisal (PA) processes, reflects the divergence of the sociological approach from the confirmatory statistical approach discussed earlier. Because PA exercises are designed to be inclusive rather than representative, no valid statistical inferences may be made from the resulting data. Rather, it is recommended that the qualitative information (i.e. opinions and ideas) collected during the PA exercise be read in its entirety, in order to appreciate the full complexity of the relevant issues from a local perspective. This material is often in the form of maps and diagrams drawn from participants' unique perspectives.

In addition to the these factors, local bodies may play a more active role in developing the capacity of excluded groups to organize and express their demands. However, it is not just state agencies, whether at central or local level, that perform this role. The next section discusses the key role played by non-government organizations (NGOs) in fostering bridging social capital.

**NGOs as bridging organizations**

Hill (1990, p. 158) has argued that: "social economists tend to become personally and actively involved in the quest to enhance human welfare ... with special emphasis on achieving social justice for people who are economically deprived". Social economists are therefore likely to be interested in the work undertaken by NGOs in facilitating co-operative problem solving and the creation of civil social capital, particularly in countries with low levels of governmental social capital. This is documented in various case studies (e.g. Bratton, 1990; Hussain, 1991; Rashid, 1991; Brown and Tandon, 1993; Brown, 1998).

NGOs are inherently values-driven organizations that seek to engage multiple stakeholders with conflicting interests and unequal power relations in pursuit of a shared vision. Hence, NGOs play a key role as bridging organizations between government agencies, international donors and local communities. In some cases, NGOs have established sufficient credibility for national governments to approach them for assistance in implementing specific programs. For example, in the mid-1980s the Bangladesh government invited two large NGOs, Bangladesh Rural Advancement Committee (BRAC) and the Co-operative for American Relief Everywhere (CARE), to use their connections with other NGOs and the grassroots communities they served to mobilize families to have their children vaccinated (Hussain, 1991).

In other cases, NGOs have worked with grassroots groups to pioneer innovative solutions to local problems. For instance, Rashid (1991) documents how the Orangi Pilot Project (OPP) collaborated with a neighborhood organization to develop an appropriate technology for building latrines and sanitation systems in Pakistan. The OPP subsequently negotiated with local government officials, national government agencies and international agencies to expand this self-reliant sanitation development process to other neighborhoods, cities and countries.

Case study evidence suggests that NGOs can play a crucial role in framing problems in terms that require participation by all parties. For example, BRAC and CARE effectively reframed immunization as a demand problem rather than a delivery-of-service problem, with the focus on mobilizing grassroots interest in getting children vaccinated. In Pakistan, the OPP and neighborhood organizations were able to reframe local sanitation as a target for local action and appropriate technology rather than a problem of inadequate coverage of government services.

When parties come together voluntarily for joint action an NGO may play a facilitative role. Once consensus has been reached on a collective vision, this needs to be refined into specific action plans to mobilize resources, and appropriate systems and institutional arrangements need to be in place for implementation. In this latter regard, Brown (1998) describes the way the OPP withheld its participation until a government agency desisted from a move to centralize the implementation of an expanded sanitation project. Often an NGO will not have the resources, on its own, to implement the extension and expansion of its projects, and will depend on other NGOs, government agencies and international donors to determine the scale and scope of its collaborative activities.

Case study evidence suggests that significant benefits can be derived from projects in which NGOs function as bridging organizations. In specific instances, cooperative problem solving across power and sector differences has enhanced problem-solving capacity by expanding the utilization of government programs, replicating successful innovations by NGOs and grassroots groups, and creating and identifying new resources that could only be made available through collaborative effort. The Bangladesh immunization program increased coverage from 2 per cent to 80 per cent within five years. The sanitation program initiated in Pakistan eventually led to the construction of 64,000 low-cost latrines in the Karachi slums, with over 90 per cent of resources provided by local residents.

In addition to the measurable direct outcomes of these projects, future potential benefits are realized by the augmentation of social capital through the process of collaboration. This process may enhance the capacities of different parties (including government organizations), attract external resources to contribute to co-operative efforts, and result in positive attitudes and new institutions to support future co-operation (Brown, 1998, p. 239). Indeed, from the perspective of assessing development projects, the main value of the recent interest in social capital may well be the way it has focused attention beyond immediate consequences, towards the implications for the institutional context of future collaborative activity. The value of the concept called social capital and the contribution social economists may make to its future development and application will now be considered by way of conclusion.

## Conclusion

The concept of social capital would be of little interest to social economists if it could only be viewed as an independent variable with a statistically significant effect on economic performance. This paper has advanced the view that the distinctive approach of social economists to poverty alleviation fits better with certain sociological concepts of social capital.

In the first place, an analysis of the resources that members of an impoverished community can draw on in the form of bonding and bridging social capital involves a more holistic and organic approach than that associated with conventional economic analysis, since it must take into account the social context that shapes and constrains members' behavior. Moreover, the potential role that certain agencies can play in facilitating the formation of bridging social capital would suggest that the ameliorative approach favored by social economists might be more realistic than the implication of Putnam (1993) that social capital investment is constrained by hundreds of years of cultural inertia. The success some NGOs have experienced in this regard should give encouragement to the activist tendencies of social economists. Finally, it would seem that for an external agency to act as a bridging organization, it must be guided by a clear understanding of how its activities can secure social justice. The value-directed approach favored by social economists could make a contribution to shaping this understanding.

By engaging with the social capital literature, social economists need not depart too far from the concerns that have traditionally characterized their discipline. For instance, the emphasis that solidarist thinkers give to the molding of economic community through application of the principle of "subsidiarity" (O'Boyle, 1990) reflects an appreciation of the way decision making units can enhance the capacity of less powerful groups to co-operatively solve their problems without direct intervention. Extension and clarification of the mainstream conception of social capital is a potentially fruitful area of inquiry for social economists.

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