

The Origins and Political Consequences of Social Capital

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With the rise of analytical or positive approaches to the study of politics over the last three decades the concept of the collective action problem has emerged as one of the central lenses through which political scientists view the political world. The concept's widespread acceptance as a descriptive and diagnostic tool, however, can not obscure the fact that its predictions do not always hold. Cooperation sometimes *does* take place in contexts where, according to the theory, actors should have little incentive to do so.

To account for such behavior, theorists have developed the concept of social capital.¹ Although authors define it in various ways, social capital is, at its core, a set of institutionalized expectations that other social actors will reciprocate cooperative overtures.² This expectation generates cooperation by making otherwise untrusting actors willing to undertake those overtures in the first place.

Both the academic and policy-making communities have been particularly energized by the concept of social capital. From the World Bank to city hall, the creation of social capital has been embraced as a solution for social problems as diverse as urban poverty and crime, economic underdevelopment and inefficient government.³ Yet despite the widespread attention it has received, our theoretical understanding of the concept of social capital is still in its infancy. The purpose of this research note is to identify and discuss two particularly weak aspects of the social capital research paradigm. The first is the question of the origins of social capital. Although we know that social capital stocks vary across countries and communities,

¹ James S. Coleman, *Foundations of Social Theory* (Cambridge, MA: Harvard University Press, 1990), Glenn Loury, "Why Should We Care About Group Inequality?" *Social Philosophy and Policy* 5 (1987).

² For an overview of different conceptualizations of social capital in the literature, see Kenneth Newton, "Social Capital and Democracy," *American Behavioral Scientist* 40 (March/April 1997), pp. 575-586.

³ Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993), Robert D. Putnam, "Bowling Alone, Revisited," *The Responsive Community* (Spring 1995), pp. 18-33, and Jim Granato, Ronald Ingelhart and David Leblang, "The Effect of Cultural Values on Economic Development: Theory, Hypotheses, and Some Empirical Tests," *American Journal of Political Science* 40 (August 1996), pp. 607-631.

we presently have a poor understanding of how to explain this variation. The second is the issue of accounting for the mechanisms that link social capital with good governmental performance. Although the accumulated evidence strongly suggests that the two are correlated, we lack an understanding of the microlinkages that connect one with the other.

THE ORIGINS OF SOCIAL CAPITAL

Theories of social capital posit it as an equilibrium concept. Repeated cooperation increases the available stock of social capital. And social capital, in turn, makes it possible to sustaining social cooperation. The virtue of thinking about social capital in terms of social equilibria is that it captures the circularity of the relationship between the act of cooperation and the likelihood of mutual collaboration in the future. To think purely in terms of linear causation is to do injustice to the interconnectedness of these two variables and to fail to capture the stability of social capital stocks over the long term. The danger of thinking in terms of equilibria, however, is that it makes it very easy to skirt the important issue of how these virtuous or vicious circles are initiated in the first place.

In what follows, we present a series of hypotheses to explain the emergence of these different equilibria. Two of these hypotheses are drawn from the literature on social cooperation, and one is new. Alone, however, none of them is sufficient to account for variation in the level of social capital across nations and communities. To explain this variation, we propose that a community's cooperative capacity is a function of the degree of social and political inequality it has experienced over the course of its historical development.

The first, and most commonly cited, explanation for the origins of social capital points to experimental research that shows how stable cooperation can emerge spontaneously among otherwise uncooperative actors when they value future pay-offs and expect to interact again

and again an indefinite number of times.⁴ As long as the pattern of interaction has no foreseeable end, actors will have no incentive to defect from cooperating and a virtuous circle of cooperation and social-capital-building will be initiated. The problem with this explanation is that it only allows for one outcome. Unless we are able to point to reasons why social interactions were historically more frequent and repetitive in some places than in others, it leaves us unable to explain variation in the emergence of social cooperation across communities.

A second explanation builds on a distinction between collaborative interactions that take place in associations that produce public goods and collaborative interactions that take place in associations that produce private goods. In parent-teacher associations and neighborhood watch groups, individuals have strong incentives to free-ride and enjoy costlessly the benefits of better schools or safer streets that these organizations provide. The success of such public goods-producing enterprises will therefore depend on pre-existing norms of reciprocity. In choral societies, soccer clubs and other private goods-producing endeavours, on the other hand, incentives for free-riding are absent. To skip the chorus rehearsal or the soccer practice is to miss out on the enjoyment of singing or playing. Here the problem is not cooperation in the face of incentives to defect but simply the coordination of common interests.

Despite these differences, both kinds of interactions will generate social capital among those who participate, albeit to different degrees.⁵ It is possible, therefore, that the second sort of non-social capital-dependent interaction could, over time, generate enough social

⁴ Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984).

⁵ For a further discussion of the social capital producing capacities of public and private goods-producing groups, see Charles Boix and Daniel N. Posner, *Making Social Capital Work: A Review of Robert Putnam's Making Democracy Work: Civic Traditions in Modern Italy*, Harvard University Center for International Affairs Working Paper, no. 96-4.

capital to make more significant cooperation possible in arenas where individuals *do* face collective action dilemmas. Social capital would emerge through an evolutionary process, starting out in private goods-producing interactions and ultimately graduating to public goods-producing groups. The problem with this explanation, however, is that, like the first, it fails to account for different equilibria in different countries and communities. To explain why cooperation emerged in some places but not in others would require arguing -- rather implausibly, we think -- that people in some places historically shared more common interests than their counterparts elsewhere.

A third explanation emphasizes the ability of a sufficiently powerful third-party enforcer to compel otherwise untrusting individuals, through the threat of force or the creation of cooperation-facilitating institutions, to overcome the collective action dilemmas that beset them.⁶ The problem with this explanation is that it is empirically weak. For example, in Italy, the subject of Putnam's study, the region of the country whose state was historically strong enough to enforce cooperation among individuals (the South) turned out to have very low stocks of social capital. Although this explanation may hold in some instances, it clearly does not constitute a general answer to the question of social capital's origins.

The insufficiency of these explanations may stem from the fact that they all assume that it is the emergence of cooperation that is puzzling. It might well be the case that cooperation emerges spontaneously (as described in the second or third accounts above) and that what truly requires explanation is the set of forces that block its continued growth. One factor which would clearly affect social cooperation, and hence explain variation in social capital

⁶ Because these institutions perform such a valuable coordination and cooperation-facilitating function, they would tend to persist and continue to make cooperation possible even after the third-party enforcer had declined. Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).

stocks across countries, is the degree of social and political inequality among potential cooperating partners. Cooperation among unequals is problematic because there will always be incentives for the poor, who will naturally be dissatisfied with the existing distribution of assets, to defect from cooperative arrangements that perpetuate the *status quo*. Moreover, to maintain their political and economic privileges, the rich will maneuver to undermine any collective efforts that the poor may undertake to better their lot.⁷ To illustrate this point, we turn to the puzzle of why social trust varies so widely across the Italian peninsula. This is the question that is begged, and left largely unanswered, in Putnam's *Making Democracy Work*.

Imagine Italy around the year 1000. For the sake of argument, let us assume that by this time self-sufficient, autarchical communities were giving way to more complex forms of social and economic organization and that cooperation was slowly taking off in both parts of the country. Why did cooperative practices take root in the North but not in the South?

Part of the answer lies in the presence in the South of an external power that, in its quest for absolute political control, did everything it could to uproot associations and sabotage cooperative activities that might pose a threat to its security. Thus, in the South, which was, *ab initio*, more likely to acquire social capital than the North given its set of flourishing commercial cities, cooperation was quashed by a Hobbesian state: the Norman invaders. In the North, cooperation was not blocked by a hegemonic power and was allowed to build on itself and grow over time.

More important than the role the Norman invaders played in blocking the growth of

⁷ "Again, those who have too much of the goods of fortune, strength, wealth, friends, and the like, are neither willing nor able to submit to authority ... On the other hand, the very poor, who are in the opposite extreme, are too degraded. So that the one class cannot obey, and can only rule despotically; the other knows not how to command and must be ruled like slaves. Thus arises a city, not of freemen, but of masters and slaves, the one despising, the other envying; and nothing can be more fatal to friendship and good fellowship in states than this" (Aristotle, *Politics*, IV, 11).

social capital in the South was the region's "steep social hierarchy" and the fact that social life at the local level "came to be ever more dominated by a landed aristocracy endowed with feudal powers, while at the bottom masses of peasants struggled wretchedly close to the limits of physical survival."⁸ Such deep-rooted social inequality was in stark contrast to the situation in the towns of northern and central Italy, which constituted, according to one author cited by Putnam, "oases amidst the feudal forest."⁹

In the North, where there was, roughly speaking, more equality, cooperation proved easy to sustain. The wide inequalities which characterized social life in the South, on the other hand, fueled resentments which prevented cooperative practices from crystallizing. In the South, local feudal lords watched peasants carefully and crushed any cooperative activities that they believed might lead to organized resistance. The reason why the social cooperation equilibrium emerged only in the North, then, is that, in the South, feudal relations and powerful coalitions of local landowners foiled peasant attempts at cooperation.¹⁰

The implication of this discussion is that whether or not cooperation takes root will depend on the pre-existing set of social and political relations in the community and on the degree of inequality and polarization suffered by society -- issues, it is worth pointing out, that are almost invisible not only in Putnam's account of Italian history but in most theoretical accounts of the evolution of social cooperation.

⁸ Putnam, *Making Democracy Work*, p. 124.

⁹ *Ibid.*, p. 124.

¹⁰ A similar explanation could be applied to the case of Spain. To explain why Spanish regions have had divergent development paths in the last two centuries, researchers have pointed to variation in their agrarian structures. In Catalonia, a secular war in the fifteenth century was followed by a royal settlement that guaranteed a rather egalitarian distribution of property. This put in place the conditions that may have sustained cooperative endeavors and which may explain the region's great economic expansion during the eighteenth century. In Andalusia, on the contrary, a highly unequal distribution of land fed pervasive political conflict, social distrust and low growth. See Albert Carreras, "Cataluña, Primera Región Industrial de España," in Jordi Nadal and Albert Carreras, *Pautas Regionales de la Industrialización Española (Siglos XIX y XX)* (Barcelona: Ariel, 1990), pp. 258-295.

SOCIAL CAPITAL AND GOVERNMENTAL PERFORMANCE

Why are some governments more stable, efficient, innovative and well-managed than others? The traditional answers to this question focus on such factors as electoral competitiveness, institutional design, political polarization, bureaucratic capacity and socioeconomic modernity. Theorists of social capital have provided us with a powerful additional explanatory variable.

The logic of how social capital produces governmental effectiveness, however, is underspecified. The game theoretical tradition that social capital scholars tend to draw upon demonstrates how social capital facilitates the cooperation that makes it possible for actors to achieve superior social outcomes. But it leaves us without an explicit articulation of the mechanism by which the ability of people in society to cooperate affects the performance of the governmental institutions that sit on top of them. In other words, there is an aggregation problem. Thus far, social capital theory has not specified the logic of the microlinkages that tie a community's cooperative capacity to the achievement of good government. To fill this gap, we proceed to describe five models of the relationship between the cooperative capacity of society and the performance of its political institutions.

Rational Voters and Competitive Elites

Underlying our first model lies the image of a perfectly competitive democracy where voters are well informed, prompt to mobilize and eager to punish under-performing elected representatives at the ballot box. Recognizing this, representatives are anxious to please voters and govern according to their wishes. They work hard to implement policies preferred by a majority of their constituents and press bureaucrats to deliver the goods as efficiently as they

can.

Since, as this model assumes, the effective operation of political institutions depends on the ability of citizens to hold elected representatives accountable for the quality of the governance they provide, social capital will produce good governance to the extent that it makes citizens "sophisticated consumers of politics." Active participation in community associations will help do this by providing opportunities for citizens to discuss civic affairs, increase their awareness of political issues and argue about whether or not the government is doing everything that it should to improve their welfare. Knowing that their constituents are monitoring and discussing their behavior, elected political elites will work harder to govern effectively, lest they be removed from office at election-time.

In addition to making citizens better informed and building their qualities of judgement, social capital contributes to effective governance by facilitating the articulation of their demands. As the literature on collective action emphasizes, the organization and representation of all interests in society is far from automatic. Since only a (minor) fraction of the population is organized in interest groups, citizens' preferences will be unequally represented in the political arena. In the context of asymmetric interest organization, those citizens that are organized pass the costs of their preferred policies onto the majority, and Pareto-efficient outcomes are not achieved.¹¹ The more civic a community, the better able its citizens will be to overcome the collective action dilemmas which stand in the way of organizing groups capable of articulating their interests to the government. The more that the government is made aware of the wishes of the community, it is assumed, the greater the

¹¹ Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982), particularly chapters 1-3.

likelihood that its policies will reflect them.¹²

Bureaucratic Efficiency

A second hypothesis is that social capital promotes institutional effectiveness through its effects on the behavior of policy-making and bureaucratic elites. It does so in two ways. First, it fosters the ability of government bureaucrats to cooperate with one another in the course of carrying out their duties. To the extent that the political elites and bureaucrats responsible for writing reform legislation, administering day-care centers or responding to citizens queries are members of a larger social capital-rich society, they will be able to compromise with one another and work together efficiently. The quality of governance will therefore rise.

Second, social capital increases the capacity of governmental officials to manage public agencies. In modern societies, the production and delivery of goods and services requires complex institutional arrangements to structure and coordinate the work of individual agents. The organizations that are created to do this are beset by the classic principal/agent problem.¹³ Recognizing that senior managers (principals) are responsible for overseeing the work of a very large number of middle managers and low-rank administrative personnel (agents), the latter will be tempted to act opportunistically in their job positions. This, in turn, will require senior managers to divert significant time and resources from productive tasks to unproductive performance monitoring. To the extent that principals can minimize these amount of time and resources they must devote to this end, the organization that they control

¹² An important problem with this model is that if members of the community do not have identical interests, social capital is likely to foster the emergence of interest groups making contending demands on the government. Rather than produce good government, such a situation may produce gridlock and/or, as Olson suggests in *The Rise and Decline of Nations*, a decline in innovation and economic decay.

¹³ Gary Miller, *Managerial Dilemmas: The Political Economy of Hierarchy* (New York: Cambridge University Press, 1992).

will be more efficient and productive.

The traditional way that principals reduce monitoring costs is by developing formal institutions (like hierarchies or markets) that create disincentives for agents to act opportunistically. High levels of social capital among organization members constitute an informal institution that can substitute for or fortify such measures. In communities rich in social capital, public agencies will therefore have lower monitoring costs. By contrast, communities poor in social capital will have to overcome the presence of widespread opportunistic behavior within their government machineries by introducing expensive monitoring and sanctioning devices. Accordingly, the provision of collective goods will be slower and more expensive than in more civic polities.

Rule Compliance

A similar argument linking social capital and governmental efficiency would emphasize the way that social capital reduces the costs of enforcing and implementing governmental policies and regulations. But whereas the previous model focuses on social capital's role in minimizing transaction costs in intra-governmental interactions, this model emphasizes its role in reducing costs in the arena of citizen-government relations.

Governments impose costs on citizens and provide valuable benefits. They levy taxes to pay for schools, police, roads and other public services impose expensive regulations to provide for safer workplaces, a cleaner environment and safer foods and medicines. Because the benefits that such measures deliver are public goods, people have incentives to shirk. Although they would rather have the benefits than not, they do not want to be the only ones who pay the taxes or bear the cost of complying with the regulations that generate them. To secure compliance, governments must create complex and costly mechanisms of enforcement.

Social capital reduces the need for such mechanisms by shaping the expectations citizens have about the behavior of others. If people expect their fellow taxpayers or waste-producers to pay their taxes or comply with environmental regulations, then these costs are more likely to be borne willingly and the cost of enforcing compliance will be low. Conversely, if people expect others not to pay or comply, then they will be less likely to do so themselves, and the cost of enforcing compliance will be high. The human and financial resources that the government applies toward enforcing this compliance could otherwise be directed toward increasing the efficiency or expanding the range of services that it provides. By giving citizens more optimistic expectations about the behavior of their fellow citizens, social capital can relieve the government from the burden of enforcing compliance and free up resources for these other ends.

Civic Virtue

In the first model we presented, we emphasized the role that social capital plays in increasing the volume and clarity of citizens' demands on government and improving the responsiveness of elites to those demands. Yet social capital may also affect the *nature* of citizens preferences. Social capital may indeed foster civic virtue among the citizenry, much as Tocqueville saw in *Democracy in America* and contemporary proponents of "civic republicanism" argue in their works.¹⁴

In modern parlance, social capital promotes good governance by shifting community tastes from particularistic interests (how can I get richer?) to more community-oriented concerns (how can our neighborhood be improved?). By enhancing citizens preferences for

¹⁴ Robert Bellah et al, *Habits of the Heart: Individualism and Commitment in American Life* (New York: Harper and Row, 1986), Michael J. Sandel, *Democracy's Discontent: America in Search of a Public Philosophy* (Cambridge: Harvard University Press, 1996).

collective benefits -- developing the "I" into the "we" in Putnam's terms¹⁵ -- social capital encourages the articulation of demands on government which are to everyone's benefit rather than helping some members of society at the expense of others. For the same reasons, the presence of abundant stocks of social capital in a community may also cause citizens to play down demands for short-term consumption-oriented expenditures and encourage them to support the sorts of investments in the future which will dramatically improve the lives of community members in the long run.

Elite Accommodation

A fifth model links social capital and good governance through the former's ability to foster accommodative practices among otherwise antagonistic elites. This model applies to a special subset of countries and institutional arenas in which problems of good governance are compounded by the fact that citizens are frozen in antagonistic ethnic, religious or class blocks. The preferred institutional solution for such situations, the introduction of consociational institutions, has a mixed track record. While consociationalism has flourished in Belgium, Switzerland, Malaysia and the Netherlands, it has foundered in Lebanon and Cyprus and been still-born in Northern Ireland. The key to this variation lies partly in the structure of the formal consociational institutions that were applied in each case. But consociationalism's success lies in even greater measure in two additional non-institutional factors: the commitment of faction leaders to making the system work, and the ability of such leaders to make the compromises necessary to do so without losing the support of their fellow

¹⁵ Robert D. Putnam, "Bowling Alone: America's Declining Social Capital," *Journal of Democracy* 6 (January 1995), p. 67.

group members.¹⁶

We propose that both of these will depend on the endowment of social capital possessed by the society in which the system is being introduced. In deeply divided societies, networks of associational life tend to be segregated, and the social capital that these networks produce tends to be unsuitable for promoting cooperation across network boundaries. This is so because the trust and norms of reciprocity that reduce the risk of cooperative endeavours with fellow network members will have the simultaneous effect of making cooperative ventures with non-network members comparatively risky, and therefore less likely. The accumulation of social capital will therefore reinforce communal divisions and reduce the incentives for group leaders to compromise in their dealings with one another.

But when stocks of social capital reach very high levels, this effect may be reversed. It may be that the bounded interactions that make cross-network cooperation comparatively more risky also make those who cooperate less risk averse. A (declining) "risk aversity effect" may operate simultaneously, and at cross-purposes, with the (increasing) "comparative risk of cross-network cooperation effect." At very high levels of social capital, the former may overwhelm the latter, thereby making inter-network cooperation possible. In the same way that farmers with a surplus are willing to make risky and/or long-term investments,¹ people who are engaged in very dynamic, social capital-rich associational networks may be willing to overlook the comparative safety of intra-network transactions and make cooperative overtures to non-network members because they know that, if their overture is rejected, they have a very safe and dependable network of cooperation partners to fall back on. Thus, whereas low to

¹⁶ Arend Lijphart, *Democracy in Plural Societies* (New Haven: Yale University Press, 1977).

¹ Samuel Popkin, *The Rational Peasant: The Political Economy of Rural Society in Vietnam* (Berkeley and Los Angeles: University of California Press, 1979).

middling levels of social capital will be likely to present obstacles for elites interested in fostering inter-group cooperation, very high levels may generate a greater willingness among both group leaders and the followers that must support them to bridge social cleavages and make overtures across group boundaries. To the extent that this is true, social capital will make democracy work in divided societies by making consociational democracy possible.

Furthering the social capital research agenda will require a much more thorough consideration of these, and other, models of social cooperation and governance than space allows us to undertake here. But by drawing attention to the need for an explanation of the origins of social capital and a clearer explication of the link between social capital and governmental effectiveness, and by sketching several hypotheses for what these explanations and linkages might be, we hope to have taken a first step in the further development of the research paradigm.