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2015

Trusting your Mafia: Social Capital and Illicit Markets in Bosnia.

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Recommended Citation

Steelman, Carli and Kendra Koivu. "Trusting your Mafia: Social Capital and Illicit Markets in Bosnia.." (2015).
https://digitalrepository.unm.edu/el_centro_research/12

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Abstract:

What role does social capital play in the use of violence in illicit markets? Social capital is a multi-dimensional concept that includes networks, trusts and norms, and researchers have made great progress identifying the role social capital plays in economic development. Economies embedded within a social context characterized by high levels of social capital benefit from lower transactions costs, increased efficiency, and increased innovation. Nevertheless, a sticking point in the literature remains, namely, that it is difficult to disentangle the effects of social capital from the effects of formal institutions. We argue this ambiguity is the result of social capital studies that focus almost exclusively on licit markets with formal institutions. To remedy this, we look at markets with no formal institutions: illicit markets. We focus on the role of networks and find that social capital can reduce transaction costs and consequently levels of violence, but only if network ties are “bridging” and thus weak. However, if network ties are “bonding” and thus strong, social capital in illicit markets encourages exclusionary relationships and the regular use of violence.