SPECIAL ISSUE

A Layman's Guide to Social Capital and the Relevance for Economic Development

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Abstract

The previous paper (Menz, this issue) explored the nexus between agricultural extension and social capital. This chapter spells out the nature of social capital in a more extensive way. Although social capital is a relatively new concept, one of its attractions is that it can accommodate both economic and social science philosophies. An illuminating elucidation of social capital was given by Alejandro Portes: "Whereas economic capital is in people's bank accounts and human capital is inside their heads, social capital is (inherent) in the structure of their relationships. To possess social capital, a person must be related to others, and it is these others . . . who are the actual source of his or her advantage." Building social capital can help economic development by reducing the cost of conducting day-to-day business, it facilitates the spread of knowledge and innovation and it promotes cooperation and market-based interaction. From the review of the literature on social capital and economic development, it can be concluded that social capital is strongly linked to economic development. This empirical result supports the positive theoretical and operational linkages between social capital and agricultural extension as outlined previously. Those linkages could reasonably be expected to be particularly important in conflict areas.

Keywords: conflict areas · economic development · social capital

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Introduction

It has been recognized that social capital development will have an important role to play in improving agricultural extension and farmer livelihoods in conflict-affected zones of Mindanao. Menz (this issue) outlined the reasons for this conclusion. However, that paper did not delve deeply into the nature of social capital per se. This paper explains in more detail the concept of social capital in terms of its core features, more or less as a "primer" or "layman's guide" to the subject. This is followed by a literature review of the positive impacts of social capital on economic well-being. The review presented here is a scaled-down version of that presented in Puerto et al. (2014).

The Concept of Social Capital

Social capital is a relatively new multifaceted concept in the context of agricultural extension. One of its attractions is that it can accommodate both economic and social science paradigms, and it provides a common discourse across disciplinary, sectoral, and methodological divides (Woolcock 2002). The word *capital* implies a form of "economic good" that can potentially contribute to human well-being. Yet some economists have questioned the usefulness of the term *social capital*. Solow (2000) states that *capital* typically refers to a stock of something, and he asks in relation to social capital, "A stock of what?" He suggests that the words *behavioural patterns* may be more appropriate as this phrase implies trust and reciprocity. However, the general agreement is that social capital comes about through changes in how relationships develop among people, whereby those changes facilitate action. Social relationships are one of the ways of coping with uncertainty, extending interests, and achieving outcomes not attainable unilaterally (Woolcock 2002).

"If *physical* capital is wholly tangible, being embodied in observable material form, and *human* capital is less tangible, being embodied in the skills and knowledge acquired by an individual, *social* capital is less tangible, because it exists in the *relations* among persons. Just as physical capital and human capital facilitate productive activity, social capital does as well" (Coleman 2000, emphasis added). Portes (1998) states, "Whereas economic capital is in people's bank accounts and human capital is inside their heads, social capital is (inherent) in the structure of their relationships." To possess social capital, a person must be related to others, and it is these others, not themselves, who are the actual source of his or her advantage."

In the literature, the differences in the definitions of *social capital* and the treatments of it partly reflect the different theoretical and disciplinary traditions from which the concept has emerged. Notwithstanding these differences, some themes run through the definitions and treatments of *social capital* with sufficient frequency to allow a firming up of its scope and meaning.

The Dimensions of Social Capital

Social capital has three key dimensions:

1. Social networks are key elements of social capital
2. Trust as a key element of social capital
3. Reciprocity (more broadly: social rules of behavior, or social norms) is a fundamental feature of social capital

The Productivity Commission (2003) describes a social network as an interconnected group of people who usually share a common attribute. For example, they may like a particular sport or may share the same occupation or religion. On a more intimate level, families and groups of friends will exhibit network characteristics.

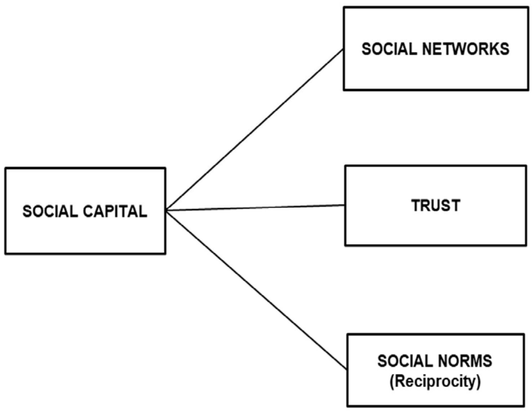

FIGURE 1 The dimensions of social capital

Different groups often have their own set of social norms and levels of mutual obligation between group members.

Trust is simply the confidence that people have in others—that they will act as they say or are expected to act, or that what they say is reliable. Social trust (or "generalized trust") refers to the general level of trust in a society — for example, how much one can trust strangers.

Social norms are "informal rules" that condition behavior in various circumstances. Specific social norms include offering seats for the elderly on public transport and not littering, while generalized norms may include tolerance, behaving honestly, and helping those in need. A key overarching norm is that of reciprocity—"Do unto others as you would have them do unto you."

Potential Benefits from Building Social Capital

Narayan and Pritchett (1997) describe five mechanisms for how social capital affects outcome:

- Improve society's ability to monitor the performance of government, either because government officials are more embedded in the social network or because monitoring the public provision of services is a public good.
- Increase possibilities for cooperative action in solving problems with a local common property element.
- Facilitate the diffusion of innovations by improving interlinkages among individuals;
- Reduce information imperfections (reducing transactions costs) and expand the range of enforcement mechanisms, thereby increasing transactions in output, credit, land, and labor markets.
- Augment informal insurance (or informal safety nets) between households, thereby allowing the pursuit of higher returns, but also some risk-taking with activities and production techniques.

Social capital can be linked to livelihood improvement on the premise that social capital can make other forms of capital (e.g., physical capital, cultural/human capital, political capital) more efficient by increasing the productivity of both individuals and groups (Putnam 2000).

Some Observations on Measurement of Social Capital

It is important to distinguish between social capital and its effects. Many of the indicators that researchers have used to gauge social capital are open to criticism for failing to make that distinction. Ideally, one should think about the different dimensions as being conceptually (and measurably) distinct. For example, it may be that norms of trust and reciprocity account for some types of outcome, but that the nature of social networks account for others. Then, of course, these various dimensions or elements may influence one another.

Most empirical investigations have relied upon indicators (outcomes) of social capital that have rarely been supported by a direct empirical investigation of the relationship between the indicators and the core components of social capital. Overall, measures of some types of trust are better developed than others (e.g., broader measure of social trust versus narrower measures of trust between familiars). Ultimately, understanding how one type of trust relates to another is also a potentially important question, yet one that remains unmeasurable unless each type of trust is distinctly investigated.

Reciprocity is the process of exchange within a social relationship whereby goods and services (meaning exchange of any kind) given by one party are repaid to that party by the party who received the original goods and services. Reciprocal relations are governed by norms, such that parties to the exchange understand the social contract they have entered into.

A local study by Milagrosa and Slangen (2006) showed that social capital is influenced by gender, education, religion, age, and ethnicity in varying degrees. The study highlighted the important role of carefully directed policies from local governments in fostering social capital. Because infrastructure and resource are at their control, the local governments can initiate efforts to increase intra- and inter-community social interaction.

Impacts of Social Capital on Economic Growth

Rupasingha, Goetz, and Freshwater (2000) examined the effect of social capital on economic growth and found that social capital has a statistically significant, independent positive effect on the rate of per capita income growth. An analysis by Sabatini (2007) provided a proof of Putnam's claims on the positive role of civil society organizations in development processes.

Chou (2006) proposed three models of social capital and growth that incorporate different perspectives on the concept of social capital and the empirical evidence gathered to date. In these models, social capital impacts growth by assisting in the accumulation of human capital, by affecting financial development through its effects on collective trust and social norms, and by facilitating networking between firms, which result in the creation and diffusion of business and technological innovations.

Forte, Peiró-Palomino, and Tortosa-Ausina (2015) analyzed the role of different elements of social capital in economic growth for a sample of 85 European regions during the period of 1995–2008. In particular, the study analyzed three indicators of social capital: social trust, associational activities, and social norms. It suggested that the first two factors might have some implications for regional growth while social norms are a weaker predictor for growth.

Orlowski and Wicker (2015) conducted a study to estimate the monetary value of social capital by considering its multidimensional nature and conceptualized four dimensions: interpersonal trust, institutional trust, trustworthiness, and participation in civil society (formal and informal). According to the researchers, the monetary value is obtained by including social capital in a well-being function and estimating the shadow price of social capital. Their findings indicated that social capital has significant monetary value to individuals.

An ever-growing literature claims that repeated trustful interactions in the economy do pave the way for higher levels of generalized trust. This aggregate stock of trust is then named social capital and treated as an input in the aggregate production function, such as labor, physical capital, or human capital. Various types of social capital facilitate intra-local or inter-local economic development partnerships because they reduce the transaction costs that lead to collective action problems. Prior studies have focused on explaining how collective action mechanisms lead to the creation of economic development partnerships. While multidimensional social capital plays a dynamic role in promoting economic development activities within and across communities, the underlying complexity of multidimensional social capital remains unexplored in prior studies. The study by Oh, Lee, and Bush (2014) creates a typology presenting various dimensions of social capital and tests the effects of multidimensional social capital on different economic development partnerships, which indicate that different dimensions of social capital contribute to creating economic development partnerships regardless of local boundaries. Moreover, studies by Baliamoune-Lutz (2011) show that both social capital and institutions have positive effects on income, but the relationships these variables have with income tend to be nonmonotonic. Thus, social capital has a positive influence on the effectiveness of human capital.

Dinda (2008) studied the formation of social capital through development of human capital that is created from productive consumption. According to the study, human capital accumulation results from productive consumption, and an increase in social capital is driven by the existence of human capital. Moreover, the optimal growth rate of consumption was derived, which shows that both human capital and social capital accumulation affect the equilibrium growth rate.

Relevance to Agriculture

In an agricultural context, Herbel, Rocchigiani, and Ferrier (2015) found that fragmentation, small size, and market imperfection affect the performance of family farming. Family farmers cannot seize economic opportunities or influence policies that affect them. The experience of the French Farm Machinery Co-operative movement (CUMA) clearly illustrates how a movement of small farmers organized in cooperatives can help remove the major barriers to the economic and social development of family farmers. Nevertheless, cooperative performance is affected by pervasive incentive problems. CUMA history suggests how social capital is a critical resource in overcoming some incentive problems. The CUMAs succeeded in creating effective cooperatives through the development of a dense fabric of relations: (1) among the family farmers' members within their local cooperatives, (2) between the local cooperatives, and (3) through their network with a multiplicity of actors. Some lessons from this cooperative experience can be broadly useful to governments and development practitioners to help unlock the family farming potential in developing countries.

Technology is considered to be necessary, but it is not a sufficient condition for regional economic development (Rutten and Boekema 2007). Regional innovation networks transform technology into a catalyst for the competitiveness of firms and thus contribute to economic development. Intangible assets, such as social capital, decide how effective regional innovation networks function. Differences in regional social capital thus help explain regional differences in economic development. Regional social capital originates from the embeddedness of firms in regional webs of social relations. The norms, values, and customs of these networks facilitate collaboration for mutual benefit. As innovation is increasingly a network effort, embeddedness and social capital also help explain how and why networks of innovating companies are successful.

In the Philippines, a study by Labonne and Chase (2011) explores the social capital impacts of a community-driven development project in which communities competed for block grants for infrastructure investment. Their finding revealed that the project increased participation in village assemblies and the frequency with which local officials meet with residents.

Conclusion

This paper presented what might be called a layman's guide to social capital. The concept is an elusive one; hence, it was deemed worthy to devote the effort to lay out the various interpretations that will be referenced throughout the special issue. This layman's guide may also assist others in obtaining a better understanding of social capital. The literature review confirmed that social capital has been referenced by multiple studies as a strong contributing factor leading to economic development. Such studies were undertaken at both macro and micro levels. A recent farm level study (Predo and Menz 2017) confirmed that this general relationship outlined in the literature was also observable for the project farmers. This is an important finding in that it supports the notion of social capital development as a key component of economic well-being. In turn, this empirical result supports the theoretical and operational linkages between social capital and agricultural extension as outlined in Menz (this issue). Those linkages could reasonably be expected to be particularly important in conflict areas.

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