Social Capital: Explaining Its Origins and Effects on Government Performance

CARLES BOIX AND DANIEL N. POSNER*

With the rise of analytical or positive approaches to the study of politics over the last three decades, the collective action problem has emerged as one of the central concepts in political science. The concept's widespread acceptance as a descriptive and diagnostic tool, however, cannot obscure the fact that its predictions do not always hold. Co-operation sometimes *does* take place in contexts where, according to the theory, actors should have little incentive to engage in it.

To account for such behaviour, 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 co-operative overtures.[2] This expectation generates co-operation by making otherwise uncooperative actors willing to undertake those overtures in the first place.

Both the academic and policy-making communities have been 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 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, we currently 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 performance in government. 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 co-operation increases the available stock of social capital. And high stocks of social capital, in turn, make it possible to sustain social co-operation. The virtue of thinking about social capital in terms of a social equilibrium is that it captures the circularity of the relationship

* Department of Political Science and Economics, The Ohio State University; Harvard Academy for International and Area Studies, Harvard University, respectively.

[1] James S. Coleman, *Foundations of Social Theory* (Cambridge, Mass.: Harvard University Press, 1990); Glenn Loury, 'Why Should We Care About Group Inequality?' *Social Philosophy and Policy*, 5 (1987), 249–71.

[2] For an overview of different conceptualizations of social capital in the literature, see Kenneth Newton, 'Social Capital and Democracy', *American Behavioral Scientist*, 40 (1997), 575–86.

[3] Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press, 1993); Robert D. Putnam, 'Bowling Alone, Revisited', *The Responsive Community* (Spring 1995), pp. 18–33; and Jim Granato, Ronald Inglehart and David Leblang, 'The Effect of Cultural Values on Economic Development: Theory, Hypotheses, and Some Empirical Tests', *American Journal of Political Science*, 40 (1996), 607–31.

between the act of co-operation in the present 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 an equilibrium, however, is that it makes it very easy to skirt the important issue of how the virtuous circle is initiated in the first place.

In what follows, we present a series of hypotheses to explain the emergence of the social co-operation equilibrium. Two of these hypotheses are drawn from the existing literature, 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 co-operative capacity is a function of the degree of social and political inequality that the community 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 co-operation 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 co-operation and a virtuous circle of 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 co-operation 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 associations that produce public goods, like parent–teacher associations and neighbourhood 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 ability of such enterprises to get off the ground will therefore depend on pre-existing norms of reciprocity. In private goods-producing groups like choral societies and soccer clubs, however, 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 co-operation in the face of incentives to defect but simply the co-ordination of activities built around common interests.

Despite these differences, both kinds of interactions 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 capital to make more significant co-operation possible in arenas where individuals do in fact face collective action dilemmas. Social capital would emerge through an evolutionary process, starting out in interactions producing private goods and

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

[5] For a further discussion of the capacities of public and private goods-producing groups to generate social capital, see Carles 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, 1996).

ultimately graduating to groups producing public goods. The problem with this explanation, however, is that, like the first, it fails to account for the emergence of different equilibria in different countries and communities. To explain why co-operation emerged in some places but not in others would require arguing, rather implausibly, that people in some places historically had 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 institutions to facilitate co-operation, 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 celebrated study, the area of the country whose state was historically strong enough to enforce co-operation among individuals (the South) has 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 co-operation that is puzzling. It might well be the case that co-operation emerges spontaneously (as described in the first or second 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 co-operation, and hence explain variation in social capital stocks across countries, is the degree of social and political inequality among potential co-operating partners. Co-operation 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 co-operative arrangements that perpetuate the status quo. Moreover, to maintain their political and economic privileges, the rich will manœuvre 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 co-operation was slowly taking off in both parts of the country. Why did co-operative 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 co-operative activities that might pose a threat to its security. Thus, in the

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

[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).

South, which was, *ab initio*, more likely to acquire social capital than the North given its set of flourishing commercial cities, co-operation was quashed by a Hobbesian state: the Norman invaders. In the North, co-operation 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 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, co-operation proved relatively easy to sustain. The wide inequalities which characterized social life in the South, however, fuelled resentments which prevented co-operative practices from crystallizing. In the South, local feudal lords watched peasants carefully and crushed any co-operative activities that they believed might lead to organized resistance. The reason why the social co-operation equilibrium emerged only in the North, then, is that, in the South, feudal relations and powerful coalitions of local landowners foiled peasant attempts at co-operation.[10]

The implication of this discussion is that whether or not co-operation 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 co-operation.

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 socio-economic 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 co-operation 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 co-operate affects the performance of the governmental institutions that sit on top of them. There

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

9 Putnam, *Making Democracy Work*, 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 co-operative endeavours 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. 258–95).

is an aggregation problem. Thus far, social capital theory has not specified the logic of the microlinkages that tie a community's co-operative capacity to the achievement of good government. To fill this gap, we proceed to describe five models of the relationship between the co-operative 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 behaviour, 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 citizens' 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 ever organized in interest groups, citizens' preferences are unequally represented in the political arena. In the context of such asymmetric interest organization, citizens who are organized will pass the costs of their preferred policies on to the majority, and Pareto-efficient outcomes will not be achieved.[11] In very civic communities, by contrast, citizens will be able to overcome the collective action dilemmas which stand in the way of organizing groups that can articulate 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 likelihood that its policies will reflect them.[12]

Rule Compliance

A second argument linking social capital and governmental efficiency emphasizes the way that social capital reduces the costs of enforcing and implementing governmental

[11] Mancur Olson, *The Rise and Decline of Nations* (New Haven, Conn.: Yale University Press, 1982), particularly chaps. 1–3.

[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.

policies and regulations. This model emphasizes social capital's role in reducing transaction 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 and 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 behaviour 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. By giving citizens more optimistic expectations about the behaviour of their fellow citizens, social capital can relieve the government from the burden of enforcing compliance and free up resources that can be applied towards increasing the efficiency or expanding the range of the services that it provides.

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 in 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 as contemporary proponents of 'civic republicanism' argue in their works.[13]

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 neighbourhood be improved?). By enhancing citizens' preferences for collective benefits – developing the 'I' into the 'we' in Putnam's terms[14] – 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.

Bureaucratic Efficiency

A fourth hypothesis is that social capital promotes institutional effectiveness through its effects on the behaviour of policy-making and bureaucratic elites. It does so in two

[13] 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, Mass.: Harvard University Press, 1996).

[14] Robert D. Putnam, 'Bowling Alone: America's Declining Social Capital', *Journal of Democracy*, 6 (1995), 65–78, at p. 67.

ways. First, it fosters the ability of government bureaucrats to co-operate 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 centres or responding to citizens' queries are members of a larger society rich in social capital, they will be able to compromise with one another, work together efficiently and resist the temptation to neglect their work or pass difficult tasks on to their colleagues. The quality of governance will therefore rise.

Secondly, social capital increases the capacity of government officials to manage public agencies. In modern societies, the production and delivery of goods and services requires complex institutional arrangements to structure and co-ordinate the activities of individual workers. The organizations that are created to do this are beset by the classic principal/agent problem. 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 the amount of time and resources they must devote to this end, the organization that they control will be more efficient and productive.

The traditional way that principals try to reduce monitoring costs is by developing formal institutions (like performance-based wages or strict labour regulations) that create disincentives for agents to act opportunistically. High levels of social capital among organization members constitute an additional, informal institution that can produce superior productivity by affecting the expectations that agents have about the behaviour of their colleagues and supervisors. In the same way that social capital alters community tastes in society at large, it will also produce an *esprit de corps* among principals and agents that, in turn, will create 'the expectation among the multiple layers in a large firm [or bureaucracy] that cooperative behavior will be met in kind–and that it will not all unravel'.[15]

In communities (and hence public agencies) rich in social capital, agents will assume that both their managers and their fellow agents are working hard for the success of their common enterprise, and they will do so themselves. Because agents will resist the temptation to engage in opportunistic behaviour, the resources once devoted to monitoring agents' performance can be reinvested in more productive ways. Public agencies located in communities that are poor in social capital, by contrast, will be trapped in a sub-optimal equilibrium. Not trusting their employees, principals will be forced to invest in expensive monitoring and sanctioning devices to guard against opportunistic behaviour. And recognizing that they are not trusted, employees will drag their feet and work only as hard as they must to avoid discovery and punishment. In such a situation, the provision of collective goods will be slower and more expensive than in more civic polities.

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,

[15] Gary Miller, *Managerial Dilemmas: The Political Economy of Hierarchy* (New York: Cambridge University Press, 1992), p. 197.

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 or failure 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 these leaders to make necessary compromises without losing the support of their group members.[16]

We propose that the presence or absence of these key enabling conditions 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 co-operation across network boundaries. This is so because the norms of reciprocity that reduce the risk of co-operative endeavours with fellow network members will have the simultaneous effect of making co-operative 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 co-operation comparatively more risky also make those who co-operate within networks less risk averse. A (declining) 'risk aversity effect' may operate simultaneously, and at cross-purposes, with the (increasing) 'comparative risk of cross-network co-operation effect'. At very high levels of social capital, the former may overwhelm the latter, thereby making intra-network co-operation possible. In the same way that farmers with a surplus are willing to make risky and/or long-term investments,[17] people who are engaged in very dynamic associational networks rich in social capital may be willing to overlook the comparative safety of intra-network transactions and make co-operative overtures to non-network members because they know that, if their overture is rejected, they have a very safe and dependable network of co-operation partners to fall back on. Thus, whereas low to middling levels of social capital will be likely to present obstacles for elites interested in fostering inter-group co-operation, very high levels may generate a greater willingness among both group leaders and followers 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.

CONCLUSION

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

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

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