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Social capital, civil society and development

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ABSTRACT *Social capital is an instantiated informal norm that promotes co-operation between individuals. In the economic sphere it reduces transaction costs and in the political sphere it promotes the kind of associational life which is necessary for the success of limited government and modern democracy. While it often arises from iterated Prisoner's Dilemma games, it also is a byproduct of religion, tradition, shared historical experience and other types of cultural norms. Thus, while awareness of social capital is often critical for understanding development, it is difficult to generate through public policy.*

Social capital is important to the efficient functioning of modern economies, and is the *sine qua non* of stable liberal democracy. It constitutes the cultural component of modern societies, which in other respects have been organised since the Enlightenment on the basis of formal institutions, the rule of law and rationality. Building social capital has typically been seen as a task for 'second generation' economic reform; but unlike economic policies or even economic institutions, social capital cannot be so easily created or shaped by public policy. This paper will define social capital, explore its economic and political functions, as well as its origins, and make some suggestions for how it can be cultivated.

What is social capital?

While social capital has been given a number of different definitions, many of them refer to manifestations of social capital rather than to social capital itself. The definition I will use in this paper is: social capital is an instantiated informal norm that promotes co-operation between two or more individuals. The norms that constitute social capital can range from a norm of reciprocity between two friends all the way up to complex and elaborately articulated doctrines like Christianity or Confucianism. They must be instantiated in an actual human relationship: the norm of reciprocity exists *in potentia* in my dealings with all people, but is actualised only in my dealings with *my* friends. By this definition, trust, networks, civil society, and the like, which have been associated with social capital, are all epiphenominal, arising as a result of social capital but not constituting social capital itself.

Not just any set of instantiated norms constitutes social capital; such norms must lead to co-operation in groups and therefore are related to traditional

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virtues like honesty, the keeping of commitments, reliable performance of duties, reciprocity, and the like. A norm like the one described by Edward Banfield as characterising southern Italy, which enjoins individuals to trust members of their immediate nuclear family but to take advantage of everyone else, is clearly not the basis of social capital outside the family.[1]

James Coleman, who was responsible for bringing the term social capital into wider use in recent years, once argued that it was a public good and therefore would be underproduced by private agents interacting in markets.[2] This is clearly wrong: since co-operation is necessary to virtually all individuals as a means of achieving their selfish ends, it stands to reason that they will produce it as a private good (see below). In Partha Dasgupta's phrase, social capital is a private good that is nonetheless pervaded by externalities, both positive and negative.[3] An example of a positive externality is Puritanism's injunction, described by Max Weber, to treat all people morally, and not just members of the sib or family.[4] The potential for co-operation thus spreads beyond the immediate group of people sharing Puritan norms. Negative externalities abound as well. Many groups achieve internal cohesion at the expense of outsiders, who can be treated with suspicion, hostility or outright hatred. Both the Ku Klux Klan and the Mafia achieve co-operative ends on the basis of shared norms, and therefore have social capital, but they also produce abundant negative externalities for the larger society in which they are embedded.

It is sometimes argued that social capital differs from other forms of capital because it leads to bad results like hate groups or inbred bureaucracies. This does not disqualify it as a form of capital; physical capital can take the form of assault rifles or tasteless entertainment, while human capital can be used to devise new ways of torturing people. Since societies have laws to prevent the production of many social 'bads', we can presume that most legal uses of social capital are no less 'goods' than the other forms of capital insofar as they help people achieve their aims.

Perhaps the reason that social capital seems less obviously a social good than physical or human capital is because it tends to produce more in the way of negative externalities than either of the other two forms. This is because group solidarity in human communities is often purchased at the price of hostility towards out-group members. There appears to be a natural human proclivity for dividing the world into friends and enemies that is the basis of all politics. It is thus very important when measuring social capital to consider its true utility net of its externalities.

Another way of approaching this question is through the concept of the 'radius of trust'.[5] All groups embodying social capital have a certain radius of trust, that is, the circle of people among whom co-operative norms are operative. If a group's social capital produces positive externalities, the radius of trust can be larger than the group itself. It is also possible for the radius of trust to be smaller than the membership of the group, as in large organisations that foster co-operative norms only among the group's leadership or permanent staff. A modern society may be thought of as a series of concentric and overlapping radii of trust (see Figure 1). These can range from friends and cliques up through NGOs and religious groups.

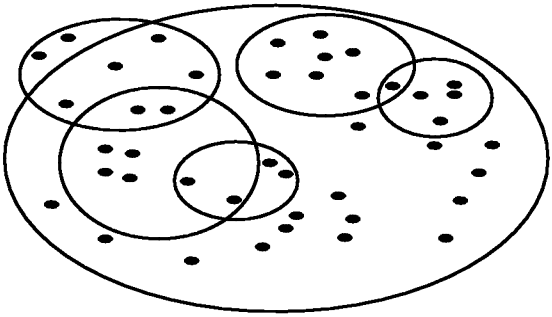

FIGURE 1
Networks of trust.

Virtually all forms of traditional culture—social groups like tribes, clans, village associations, religious sects, etc—are based on shared norms and use these norms to achieve co-operative ends. Few early postwar observers of development, such as Everett E Hagen, W Arthur Lewis and David C McClelland, found social capital in this form to be an asset.[6] This was true of many theorists on the left as well, beginning with Marx himself who regarded the traditional social relations of a country like India to be obstacles to development. Economic modernisation was seen as antithetical to traditional culture and social organisations, and would either wipe them away or else be itself blocked by forces of traditionalism. Why should this be so, if social capital is genuinely a form of capital?

The reason, in my view, has to do with the fact that such groups have a narrow radius of trust. In-group solidarity reduces the ability of groups members to co-operate with outsiders, and often imposes negative externalities on the latter. For example, in the Chinese parts of East Asia and in much of Latin America, social capital resides largely in families and a rather narrow circle of personal friends.[7] It is difficult for people to trust those outside of these narrow circles. Strangers fall into a different category than kin; a lower standard of moral behaviour applies when one becomes, for example, a public official. This provides cultural reinforcement for corruption: in such societies, one feels entitled to steal on behalf of one's family. Corruption, of course, has many causes including, most importantly, the design of public institutions. But even well designed institutions will fail to function properly if the officials and political leaders at the top of judicial hierarchies themselves lack the proper norms of personal behaviour.

Traditional social groups are also afflicted with an absence of what Mark Granovetter calls 'weak ties',[8] that is, heterodox individuals at the periphery of the society's various social networks who are able to move between groups and thereby become bearers of new ideas and information. Traditional societies are often segmentary, that is, they are composed of a large number of identical, self-contained social units like villages or tribes. Modern societies, by contrast, consist of a large number of overlapping social groups that permit multiple memberships and identities. Traditional societies have fewer opportunities for weak ties among the segments that make them up, and therefore pass on information, innovation and human resources less easily.

What functions does social capital play in a free-market liberal democracy?

The economic function of social capital is to reduce the transaction costs associated with formal co-ordination mechanisms like contracts, hierarchies, bureaucratic rules, and the like. It is of course possible to achieve co-ordinated action among a group of people possessing no social capital, but this would presumably entail additional transaction costs of monitoring, negotiating, litigating, and enforcing formal agreements. No contract can possibly specify every contingency that may arise between the parties; most presuppose a certain amount of goodwill that prevents the parties from taking advantage of unforeseen loopholes. Contracts that do seek to try to specify all contingencies—like the job-control labour pacts negotiated in the car industry that were as thick as telephone books—end up being inflexible and costly to enforce.

There was a period when social scientists assumed that modernisation necessarily entailed the progressive replacement of informal co-ordination mechanisms with formal ones. There was presumably a period in human history in which formal law and organisations scarcely existed, and in which social capital was the only means of achieving co-ordinated action; Max Weber argued that, by contrast, rational bureaucracy constituted the essence of modernity.[9]

The fact of the matter is that co-ordination based on informal norms remains an important part of modern economies, and arguably becomes more important as the nature of economic activity becomes more complex and technologically sophisticated.[10] Many complex services are costly to monitor and are better controlled through internalised professional standards than through formal monitoring mechanisms. A highly educated software engineer often knows much more about his or her own productivity than his or her supervisor; procurement is often more efficient when left to the judgment of an experienced procurement officer, rather than being done 'by the book' as in the case of a good deal of government procurement. A number of empirical studies suggests that high-tech R&D is often dependent on the informal exchange of intellectual property rights, simply because formal exchange would entail excessive transaction costs and slow down the speed of interchange.[11]

Even in non-hi-tech environments, social capital often leads to greater efficiency than do purely formal co-ordination techniques. Classical Taylorism, which organised workplaces in a highly centralised, bureaucratised manner, created many inefficiencies as decisions were delayed and information distorted while moving up and down hierarchical chains of command. In many manufacturing facilities, Taylorism has been replaced by much flatter management structures which in effect push responsibility down to the factory floor itself. Workers who are much closer to the sources of local knowledge are authorized to make decisions on their own, rather than referring them up a managerial hierarchy. This often leads to great gains in efficiency,[12] but is totally dependent on the social capital of the workforce. If there is distrust between workers and managers, or widespread opportunism, then the delegation of authority required in a typical 'lean' manufacturing system will lead to instant paralysis. This is in effect what happened to General Motors during the strikes of 1996 and 1998, when a single dissident local (angry, in the first instance, over the outsourcing of brake parts) was able to shut down the company's entire North American operations.[13]

The political function of social capital in a modern democracy was best elucidated by Alexis de Tocqueville in *Democracy in America*, who used the phrase the 'art of association' to describe Americans' propensity for civil association. According to Tocqueville, a modern democracy tends to wipe away most forms of social class or inherited status that bind people together in aristocratic societies. People are left equally free, but weak in their equality since they are born with no conventional attachments. The vice of modern democracy is to promote excessive individualism, that is, a preoccupation with one's private life and family, and an unwillingness to engage in public affairs. Americans combated this tendency towards excessive individualism by their propensity for voluntary association, which led them to form groups both trivial and important for all aspects of their lives. This stood in sharp contrast to his native France, which was beset by a much more thoroughgoing individualism than the USA. As Tocqueville explained in *The Old Regime and the French Revolution*, on the eve of the Revolution 'there were not ten Frenchmen who could come together for a common cause'. It was only by coming together in civil associations that weak individuals became strong; the associations they formed could either participate directly in political life (as in the case of a political party or interest group) or could serve as 'schools of citizenship' where individuals learned the habits of co-operation that would eventually carry over into public life.

An abundant stock of social capital is presumably what produces a dense civil society, which in turn has been almost universally seen as a necessary condition for modern liberal democracy (in Ernest Gellner's phrase, 'no civil society, no democracy').[14] If a democracy is in fact liberal, it maintains a protected sphere of individual liberty where the state is constrained from interfering. If such a political system is not to degenerate into anarchy, the society that subsists in that protected sphere must be capable of organising itself. Civil society serves to balance the power of the state and to protect individuals from the state's power.

In the absence of civil society, the state often needs to step in to organise individuals who are incapable of organising themselves. The result of excessive individualism is therefore not freedom, but rather the tyranny of what Tocqueville saw as a large and benevolent state that hovered over society and, like a father, saw to all of its needs.

Low levels of social capital lead to a number of political dysfunctions, which have been extensively documented. Following Tocqueville's analysis of France, many observers have noted how administrative centralisation has led to an excessively rigid and unresponsive political system, one that can be changed only through anti-systemic upsurges such as the *événements* of 1968.[15] Low levels of social capital have been linked to inefficient local government in southern Italy, as well as to the region's pervasive corruption.[16] In many Latin American societies, a narrow radius of trust produces a two-tier moral system, with good behaviour reserved for family and personal friends, and a decidedly lower standard of behaviour in the public sphere. This serves as a cultural foundation for corruption, which is often regarded as a legitimate way of looking after one's family.

It is of course also possible to have too much of a good thing. One person's civic engagement is another's rent-seeking; much of what constitutes civil society can be described as interest groups trying to divert public resources to their favoured causes, whether sugar-beet farming, women's health care or the protection of biodiversity. The public choice literature has analysed the baleful consequences of rent-seeking for modern democracies at great length; Mancur Olson has argued that Britain's long-term economic decline was a result of the long-term build-up of entrenched interest groups there.[17] There is no guarantee that self-styled public interest NGOs actually represent real public interests. It is entirely possible that too active an NGO sector may represent an excessive politicisation of public life, which can either distort public policy or lead to deadlock.[18]

Despite the possibility that a society may have too much social capital, it is doubtless worse to have too little. For in addition to being a source of spontaneously organised groups, social capital is vital to the proper functioning of formal public institutions. It is sometimes argued that it is more useful to compare societies in institutional rather than cultural terms. Chalmers Johnson, for example, argues that differences in Japanese and US economic policy are not culturally based, but simply the result of the fact that Japan had MITI and the USA did not.[19] The implication is that were the USA to create an equivalent of MITI in Washington, it would have similar consequences. But there are any number of reasons for thinking that different societies have different cultural capacities for institution-building. Japan's deployment of an economic planning agency with enormous power over credit allocation did not lead to the same levels of rent-seeking and outright corruption that comparable agencies have brought about in Latin America or Africa (or indeed the USA were it to follow Japan's example). This is testimony to a number of Japanese cultural characteristics—the respect given bureaucrats, their high level of training and professionalism, the general deference to authority in Japanese society, etc—and it suggests that some institutions cannot be readily transferred to other societies lacking social capital.

How do we measure social capital?

One of the greatest weaknesses of the social capital concept is the absence of consensus on how to measure it. At least two broad approaches have been taken: the first, to conduct a census of groups and group memberships in a given society, and the second, to use survey data on levels of trust and civic engagement. At the end of this section, I will suggest a third metric that may point to a measure of social capital within private firms.

Robert Putnam has tried to measure social capital by counting groups in civil society, using various censuses and surveys to track size of memberships in sports clubs, bowling leagues, literary societies, political clubs, and the like as they vary over time and across different geographical regions. There are, in fact, a very large number of such groups in any given society.

Both the average size of groups and the number of groups are important measures of civil society. A small value for group size may limit the kinds of ends a group can achieve; families, for example, are good at socialising children and running family restaurants, but not very good at exerting political influence or manufacturing semiconductors. The total number of groups itself constitutes a separate measure of civil society; unfortunately, limitations in the data prohibit our knowing what that number is for a given society, or how many missing or undercounted data elements there are. A number of attempts have been made to produce complete censuses of groups and associations in the USA. One was done by the US Department of Commerce in 1949, which estimated that there were 201 000 nonprofit voluntary trade and business organisations, women's groups, labour unions, civic service groups, luncheon clubs and professional groups at all levels of US society.[20] Lester Salamon estimates that by 1989 there were 1.14 million nonprofits in the USA indicating an overall rate of growth much higher than that of the population as a whole.[21] The near-impossibility of producing a complete census that catalogues the whole range of informal networks and cliques in a modern society is suggested by the Yankee City study, which counted some 22 000 different groups in a community of 17 000 people.[22] Changing technology changes forms of association: how do we account for the proliferation of on-line discussion groups, chat rooms, and email conversations that exploded with the spread of personal computers in the 1990s?[23]

The size of a type of group and the numbers of such groups in a society may be inversely correlated; on the other hand, because individuals can hold overlapping memberships in multiple groups, they need not be.

It is clear that each group is characterised by a different level of internal cohesion and therefore collective action. Bowling leagues are not capable of storming beaches or lobbying Congress, so some qualitative coefficient must be added to provide a measure of group cohesion. Unfortunately, there is no accepted method for measuring the internal cohesiveness of groups; each measure of effectiveness would have to be determined subjectively by an outside observer who would note the types of activities the group could undertake and their difficulty, its cohesion under stressful circumstances, and other factors. Despite the subjective nature of its derivation, it is clear that cohesiveness varies across groups and is a critical qualitative measure of social capital.

As noted above, social capital is more heavily pervaded by externalities than other forms of capital, so measurement of a nation's stock of social capital must take these externalities into account. The radius of trust can be thought of as a type of positive externality because it is a benefit that accrues to the group independently of the collective action that the group formally seeks to achieve. For example, a sect that encourages its members to be honest and reliable will foster better business relationships when they deal with each other economically, in addition to the sect's religious objectives.

For many groups, the radius of trust would extend to the whole group; this is true of most families, for example. Certain groups, particularly larger ones, are characterised by internal hierarchy, a division of labour, status and functional distinctions, etc. While the group may be united around some common interest or passion, the degree to which individual members are capable of collective action on the basis of mutual trust depends on their relative position within the organisation. Putnam rightly distinguishes between what he calls a 'membership organisation' like the American Association of Retired People (AARP), which, at more than 33 million members, is second only to the Catholic Church in size. In such a group, most members simply contribute yearly dues, receive a newsletter, and would have little reason for co-operating with one another on any issue not related to pensions or health benefits. For such an organisation, the actual radius of trust may be very small, limited to (for example) those people who work full-time in its national headquarters (though even there, there are presumably many employees who are simply wage-earners and not part of the trust network).

On the other hand, it is possible for a group to have a radius of trust larger than the group itself. To take the earlier example of the religious sect that encourages honesty and reliability, if these traits are demanded of its members in their dealings not just with other members of the sect but generally in their dealings with other people, there will be a positive spillover effect into the larger society. Again, Weber argued in effect in *The Protestant Ethic and the Spirit of Capitalism* that sectarian Puritans were enjoined to practice moral behaviour to all human beings and not just to kin and co-religionists.

The final factor affecting a society's supply of social capital concerns not the internal cohesiveness of groups, but rather the way in which these relate to outsiders. Strong moral bonds within a group in some cases may actually serve to *decrease* the degree to which members of that group are able to trust outsiders and work effectively with them. A highly disciplined, well organised group sharing strong common values may be capable of highly co-ordinated collective action, and yet may nonetheless be a social liability. I earlier noted the fact that strongly familistic societies like China and central-southern Italy were characterised by an absence of a broader, generalised social trust outside the family. At best, this prevents the group from receiving beneficial influences from the outside environment; at worst, it may actively breed distrust, intolerance, or even hatred for and violence towards outsiders. Certain groups may be actively harmful to other parts of society—criminal organisations like the Mafia or the Crips and Bloods come to mind. A society made up of the Ku Klux Klan, the Nation of Islam, the Michigan Militia, and various self-regarding ethnic and racial organisations may score high in terms of average group size, numbers of groups, and cohesiveness, yet overall it would be hard to say that such a society had a large stock of social capital.

Group affiliation can therefore produce a negative externality which we can think of as the radius of distrust. The larger the radius of distrust, the greater the liability that group represents to the surrounding society; hence the measure for a single group's social capital needs to be qualified by the external enmity it produces.

To some extent, we could expect that cohesiveness and the radius of distrust might be positively correlated with one another. That is, internal cohesiveness is often based on strongly shared norms and values within a group: both the

Marines and the Mormon Church are examples. But the very strength of those internal bonds creates something of a gulf between members of the group and those on the outside. Latitudinarian organisations, like most contemporary mainline Protestant denominations in the USA, by contrast, easily co-exist with other groups in the society, and yet are capable of a much lower level of collective action. Ideally, one would like to maximise cohesiveness and minimise the radius of distrust: such would be the case, for example, in a professional organisation that socialises its members into the values of its particular profession, while not at the same time breeding distrust of other professions or being closed to influences from them.

As this exercise indicates, producing anything like a believable census of a society's stock of social capital is a nearly impossible task, since it involves multiplying numbers that are either subjectively estimated or simply non-existent. This leads us to the other source of data that has been used as a proxy for social capital, survey data on trust and civic engagement. There are various data sources that are useful here, such as the National Opinion Research Council's General Social Survey (for the USA) and the University of Michigan's World Values Survey (for international data). Each of these surveys asks a series of questions concerning trust in various political and social institutions, as well as others probing the respondents' level of participation in voluntary organisations. There are manifold problems with survey data, of course, ranging from the fact that responses will vary according to the way the question is phrased and who is asking it, to the absence of consistent data for many countries and many time periods. A general question such as 'Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?' (asked on both the General Social Survey and World Values Survey) won't give you much precise information about the radius of trust among the respondents, or their relative propensities to co-operate with family, co-ethnics, co-religionists, complete strangers, and the like.

A third possible way of measuring social capital in specific organisations may be to look at changes in market valuations of a company before and after takeover offers. The market capitalisation of any company represents the sum of both tangible and intangible assets; among the latter is, presumably, the social capital embodied in the firm's workers and management. There is no accepted methodology for separating out the social capital component of the intangible assets, which include other things like brand names, goodwill, expectations of future market conditions, and the like. Firms being taken over by other firms, however, are usually bought at a premium to their pre-takeover price. In such a situation, we can assume that part of the premium being offered is a measure of the degree to which the new owners believe that they can manage the new firm better than the old owners, with all other factors like tangible assets, expectations about market conditions, etc being held constant. In many cases, part of the premium being offered represents the cost savings that the new owners expect to achieve through realisation of economies of scale and scope; one would have to deduct this from the actual premium to get a measure of the net value of the new management alone. This management premium is not a pure measure of social capital; it may consist partly of human capital rather than social capital.

But social capital must constitute a significant part of the residual, since effective management is, after all, nothing more than efficient co-ordination of the firm's activities.[24]

Where does social capital come from?

If we define social capital as instantiated, informal norms that produce co-operation, economists have a straightforward explanation of where it comes from: social capital arises spontaneously as a product of iterated Prisoner's Dilemma (PD) games. A one-shot PD game does not lead to a co-operative outcome because defection constitutes a Nash equilibrium for both players; if the game is iterated, however, a simple strategy like tit-for-tat (playing co-operation for co-operation and defection for defection) leads both players to a co-operative outcome. In non-game theoretic turns, if individuals interact with each other repeatedly over time, they develop a stake in a reputation for honesty and reliability. Market interactions in a commercial society lead, as Adam Smith observed, to the development of bourgeois social virtues like honesty, industriousness and prudence.[25] A society composed entirely of Kant's 'rational devils' will develop social capital over time, simply as a matter of the devils' long-term self-interest.

Social capital is clearly spontaneously generated all the time through the playing of iterated PD games. Both Robert Ellickson and Elinor Ostrom have catalogued many empirical cases of co-operative norms arising as a result of repeated community interaction.[26] The latter's database of instances in which communities have successfully dealt with common pool resource problems is particularly interesting because this class of problems constitutes an n-sided PD game which should theoretically be much harder to solve through iteration than a two-player game.

The economists' approach to understanding how social capital is generated is ultimately very limited, however. The problem is that social capital more often than not is produced by hierarchical sources of authority, which lay down norms and expect obedience to them for totally arational reasons. The world's major religions, like Buddhism, Hinduism, Christianity or Islam, or large cultural systems like Confucianism, are examples. Not only do norms from such sources not come about through decentralised bargaining; they are transmitted from one generation to the next through a process of socialisation that involves much more habit than reason. Path dependence—another word for tradition—means that norms that are clearly socially suboptimal can persist for very long periods of time.

It is, of course, possible to try to give economic or rational explanations for religious and cultural phenomena, and thus to try to fit them into some larger theory of social behaviour based on rational choice. There was for some time a school of 'functionalist' sociology and anthropology that tried to find rational utilitarian reasons for the most bizarre social rules. The Hindu ban on eating cows was ascribed, for example, to the fact that cows were resources that had to be protected for other uses like plowing and dairy-farming. Similarly, one could try to explain the Protestant Reformation in terms of the economic conditions prevailing in central Europe in the 16th century that led people to respond to religious reformers like Luther, Calvin and Melanchthon. But ultimately, these accounts prove to be unsatisfying because they are too reductionist; all such historical developments usually incorporate a substantial measure of chance, genius, accident or creativity that cannot be explained in terms of prior conditions. Max Weber stood Marx on his head by arguing that the cultural 'superstructure' actually produced the economic 'substructure': it was the moral values inculcated by Puritanism, and particularly the fact that virtues like honesty and reciprocity now had to be practised beyond the family, that made the modern capitalist world possible in the first place. In Weber's account, culture was the uncaused cause, the product of 'charisma'.[27]

Religion continues to be a factor in economic development. One of the most important and underrated cultural revolutions going on in the world today is the conversion of Catholics to Protestantism by (largely) American evangelicals and Mormons. This process, which has now been under empirical observation for nearly two generations, has produced social effects in the poor communities where it has occurred not unlike those ascribed to Puritanism by Weber: converts to Protestantism find their incomes, education levels, hygiene and social networks expanding.[28]

Apart from religion, shared historical experience can shape informal norms and produce social capital. Both Germany and Japan experienced considerable labour unrest and conflict between workers, managers and the state in the 1920s and 1930s. The Nazis and Japan's military rulers ultimately suppressed independent labour unions and replaced them with 'yellow' ones. After their defeat in World War II, the democratic successor regimes opted for a much more consensual approach to management–labour relations that produced Germany's postwar *Sozialmarktwirtschaft* and Japan's lifetime employment system. Whatever their current dysfunctions, these institutions played a critical role in allowing the two societies to return to growth after the war, and constituted a form of social capital.

How can we increase the stock of social capital?

The discussion of where social capital comes from should be informative to policy makers who want to increase the stock of social capital in a given country. States can both do some positive things to create social capital, and forebear from doing others that deplete a society's stock. We can make four observations.

First, states do not have many obvious levers for creating many forms of social capital. Social capital is frequently a byproduct of religion, tradition, shared historical experience, and other factors that lie outside the control of any government. Public policy can be aware of already existing forms of social capital—for example, the social networks used to develop information for microlending—but it cannot duplicate the effect of religion as a source of shared values. Policy makers also need to be aware that social capital, particularly when associated with groups that have a narrow radius of trust, can produce negative externalities and be detrimental to the larger society.

Second, the area where governments probably have the greatest direct ability to generate social capital is education. Educational institutions do not simply transmit human capital, they also pass on social capital in the form of social rules and norms. This is true not just in primary and secondary education, but in higher and professional education as well. Doctors learn not just medicine but the Hippocratic oath; one of the greatest safeguards against corruption is to give senior bureaucrats high-quality professional training and to create an *esprit de corps* among this elite.

Third, states indirectly foster the creation of social capital by efficiently providing necessary public goods, particularly property rights and public safety. Diego Gambetta has shown that the Sicilian Mafia can be understood as a private protector of property rights in a part of Italy where the state has historically failed to perform this function.[29] Something similar to this sprang up in Russia during the 1990s. Private property rights protection is deeply inferior to the state-supplied version, since there is nothing to prevent these private providers from getting into a host of other illegal activities as well. There are also economies of scale in the deployment of coercive force used to enforce property rights. People cannot associate, volunteer, vote, or take care of one another if they fear for their lives when walking down the street. Given a stable and safe environment for public interaction and property rights, it is more likely that trust will arise spontaneously as a result of iterated interactions of rational individuals.

Fourth, states can have a serious negative impact on social capital when they start to undertake activities that are better left to the private sector or to civil society. The ability to co-operate is based on habit and practice; if the state gets into the business of organising everything, people will become dependent on it and lose their spontaneous ability to work with one another. France had a rich civil society at the end of the Middle Ages, but horizontal trust between individuals weakened as a result of a centralising state that set Frenchmen at each other through a system of petty privileges and status distinctions. The same thing occurred in the former Soviet Union after the Bolshevik Revolution, where the Communist Party consciously sought to undermine all forms of horizontal association in favour of vertical ties between Party–State and individual. This has left post-Soviet society bereft of both trust and a durable civil society. There are, of course, good reasons why countries should restrict the size of their state sectors for economic reasons. On top of this, one can add a cultural motive of preserving a sphere for individual action and initiative in building civil associations.

If we look beyond the role of the state, there are other potential sources of social capital. A number of Western NGOs and foundations, recognising the importance of social capital and civil society, have sought to foster the latter in a number of developing countries in the 1990s. While it is too early for definitive studies on this subject, anecdotal evidence suggests that it is difficult for outsiders to foster civil society in countries where it has no local roots. Foundations and government aid agencies seeking to promote voluntary associations have often simply managed to create a stratum of local elites who become skilled at writing grant proposals; the organisations they found tend to have little durability once the outside source of funds dries up.

There are, however, two other potential external sources of social capital that may be more effective in promoting civil society. The first is religion. General social science theories about the inevitability of secularisation appear to apply primarily to Western Europe; there is little evidence that religion is losing its grip elsewhere, including in the USA.[30] Religiously inspired cultural change remains a live option in many parts of the world; the Islamic world and Latin America have both seen the growth of new forms of religiosity in recent decades. Obviously, not all forms of religion are positive from the standpoint of social capital; sectarianism can breed intolerance, hatred and violence. But religion has also historically been one of the most important sources of culture, and is likely to remain so in the future.

The second source of social capital in developing countries is globalisation. Globalisation has been the bearer not just of capital but of ideas and culture as well. Everyone is well aware of the ways in which globalisation injures indigenous cultures and threatens long-standing traditions. But it also leaves new ideas, habits and practices in its wake, from accounting standards to management practices to NGO activities. It is not just investment bankers who can take advantage of the global communications and information revolution; activists of all sorts, from environmentalists to labour organisers, can now operate transnationally to a much greater extent than before.[31] The issue, for most societies, is whether they are net losers or gainers from this process, that is, whether globalisation breaks down traditional cultural communities without leaving anything positive in its wake, or rather, is an external shock that breaks apart dysfunctional traditional and social groups and becomes the entering wedge for modernity.

Notes

1 Edward Banfield, *The Moral Basis of a Backward Society*, Glencoe, IL: Free Press, 1958.
2 James S Coleman, 'Social capital in the creation of human capital', *American Journal of Sociology*, Supplement, 94, 1988 pp S95–S120.
3 Partha Dasgupta, 'Economic development and the idea of social capital', in Ismail Serageldin & Partha Dasgupta (eds), *Social Capital: A Multifaceted Perspective*, Washington, DC: World Bank, 2000.
4 According to Weber, 'The great achievement of ethical religions, above all of the ethical and asceticist sects of Protestantism, was to shatter the fetters of the sib'. *The Religion of China*, New York: Free Press, 1951, p. 237.
5 To my knowledge, the first person to use this term was Lawrence Harrison in *Underdevelopment is a State of Mind: The Latin American Case*, New York: Madison Books, 1985, pp. 7–8.
6 See, for example, W Arthur Lewis, *The Theory of Economic Growth*, Homewood, IL: Richard D Irwin, 1955; Everett E Hagen, *On the Theory of Social Change: How Economic Growth Begins*, Homewood, IL: Dorsey Press, 1962; and David C McClelland, *The Achieving Society*, Princeton NJ: Van Nostrand, 1961.
7 See Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*, New York: Free Press, 1995, pp 83–96.
8 Mark S Granovetter, 'The strength of weak ties', *American Journal of Sociology*, 78 (6), 1973 pp 1360–1380.
9 See Max Weber, *From Max Weber: Essays in Sociology*, New York: Oxford University Press, 1946, p 196.
10 For a fuller treatment of this issue, see Francis Fukuyama, *The Great Disruption: Human Nature and the Reconstitution of Social Order*, New York: Free Press, 1999, pp 194–211.
11 See, for example, Annalee Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*, Cambridge, MA: Harvard University Press, 1994, which gives numerous examples of informal intellectual property exchange in Silicon Valley.

[12] See James P Womack & D Jones, *The Machine that Changed the World: The Story of Lean Production*, New York: Harper Perennial, 1991.
[13] Fukuyama, *The great Disruption*, pp 212–230.
[14] Ernest Gellner in *Conditions of Liberty: Civil Society and Its Rivals*, London: Hamish Hamilton, 1994.
[15] See, for example, Michel Crozier, *The Bureaucratic Phenomenon*, Chicago, IL: University of Chicago Press, 1964; Stanley Hoffmann, *Decline or Renewal? France since the 1930s*, New York: Viking Press, 1974; and Stanley Hoffmann & Charles Kindleberger, *In Search of France*, Cambridge, MA: Harvard University Press, 1963.
[16] Edward Banfield, *The Moral Basis of a Backward Society*, Glencoe, IL: Free Press, 1958; and Robert D Putnam, *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton, NJ: Princeton University Press, 1993.
[17] Mancur Olson, *The Rise and Decline of Nations*, New Haven, CT: Yale University Press, 1982.
[18] Larry Diamond, 'Rethinking civil society', *Journal of Democracy*, 5, 1994, pp 5–17.
[19] Chalmers Johnson *MITI and the Japanese Miracle*, Stanford, CA: Stanford University Press, 1982.
[20] Calvert J Judkins, *National Associations of the United States*, Washington, DC: US Department of Commerce, 1949. I am very grateful to Marcella Rey for this and other references concerning measures of group memberships.
[21] Lester M Salamon, *America's Nonprofit Sector*, New York: The Foundation Center, 1992.
[22] W Lloyd Warner, J O Low, Paul S Lunt & Leo Srole, *Yankee City*, New Haven, CT: Yale University Press, 1963.
[23] Apart from the difficulty of counting the number of such groups, there is a number of complex issues in assessing the quality of the relationships engendered by them. Ladd contests Putnam's dismissal of many new advocacy groups as mere 'membership groups'. He shows that not only have memberships in large environmental organisations like the Nature Conservancy or the World Wildlife Fund grown substantially, but the quality of the relationships formed among these groups' members goes well beyond writing a yearly dues cheque. He points to one study that shows how a single local chapter of a single environmental organisation sponsored countless hikes, bike trips, backpacking classes, and the like, all of which presumably fostered personal relationships and had spillover effects on social capital. See Everett C Ladd, *The Ladd Report*, New York: Free Press, 1999, pp 25–31.
[24] The case could probably be made that social capital is the most intangible of all intangible assets, and tends to be consistently undervalued by markets because it is so difficult to measure. Many mergers and acquisitions have involved radical downsizing of company workforces. This achieved cost savings in terms of current wages, but undermined trust and therefore social capital among the firm's remaining workers—a process popularly known as 'dumbsizing'. Wall Street is obviously better able to measure the immediate labour cost savings than the longer-term impacts of such actions on the firm's social capital.
[25] Adam Smith, *The Theory of Moral Sentiments*, Indianapolis, IN: Liberty Classics, 1982, Part One, I.4.7; Part Seven, IV. 25.
[26] Robert C Ellickson, *Order Without Law: How Neighbors Settle Disputes*, Cambridge, MA: Harvard University Press, 1991; and Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge: Cambridge University Press, 1990.
[27] Weber, *From Max Weber*, p 245.
[28] David Martin, *Tongues of Fire. The Explosion of Protestantism in Latin America*, Oxford: Basil Blackwell, 1990; and David Stoll, *Is Latin America Turning Protestant? The Politics of Evangelical Growth*, Berkeley, CA: University of California Press, 1990.
[29] Diego Gambetta *The Sicilian Mafia: The Business of Private Protection*, Cambridge, MA: Harvard University Press, 1993.
[30] David Martin, *A General Theory of Secularization*, Oxford: Blackwell, 1978; and Peter L Berger, 'Secularism in retreat', *National Interest*, 46, 1996, pp 3–12.
[31] Jessica Matthews, 'Power shift', *Foreign Affairs*, 76, 1997, pp. 50–66.