



ENGIME

Economic Growth and Innovation in Multicultural Environments

D28- Policy Letter

Workshop V: Trust and Social Capital in Multicultural Cities

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The process of globalization changed significantly the initial characteristics of the urban areas in the developed world. The mass inflow of immigrants and the increased diversity among the citizens, the threat of social exclusion and of social conflict brought the notion of social capital in the forefront of social analysis. The term “Social Capital” refers to all the advantages related to information exchange, to trust, and to cooperation, that is to say everything that is scarce under conditions of social exclusion. Although there are many different definitions of “Social Capital”, all of them agree that this term refers to those social relations that enhance the communication, the cooperation and the coordination among citizens. It is clear that “Social Capital” as it is defined could offer an efficient way to manage intrinsic diversity in all modern societies. It is the way that enables one to explore the positive dimensions of diversity and this is of course the connecting link of this workshop with the rest that are being more concentrated on “diversity”.

Although the notion of “Social Capital” is central to social analysis, it has become a subject of political analysis only recently. This peripheral role of “Social Capital” appears to be the result of the fact that it can be used to encompass almost everything (Woolcock, 1998). The same author offers a response to this criticism as he argues that (p. 159) “...one possible resolution of these concerns may be that there are different types, levels, or dimensions of social capital, different performance outcomes associated with different combinations of these dimensions, and different sets of conditions that support or weaken favorable combinations”. But this is a resolution only for theoretical analysis purposes. Without any doubt, the complicated nature of the term, as it can be seen in Woolcock’s paragraph, is the main reason why it is not usually a subject of policy. The prerequisites for a policy to be efficient are the clearness of the content and of the consequences on the targeted reforms. But unfortunately no one of these assumptions is fulfilled in the case of “Social Capital”.

We can assume that there are four general categories, which encompass the main problems of “Social Capital” as a matter of policy: The content of “Social Capital”, the problem of causality, the existence of complementarity or substitutability between civil society and the extent of governmental intervention, and the possible u-turned relationship of the extent of civil society and its positive effect on growth.

- Although in the recent years there has been a continuously growing literature in “Social Capital” the exact content of this notion is still unclear. Is “Social Capital” formal or not, is it consciously formatted or not, in which dimensions does it promote economic growth and which constraints does it imply, and of course how can policy promote the positive aspects of the term for economic growth and social unity? All these questions have to be addressed in a systematic and clear way, permitting policy makers to deal with them.
- A similar critique that constrains policy makers in dealing with “Social Capital” is the direction of causality. Even in Putnam’s (1993) work, there is no direct test of whether it is civil society that promotes economic growth, or if civil society is a byproduct of economic growth. In the most recent empirical papers it appears that there is a two-way causality. For example, policies in the labor market that promote “Social Capital” (since they reduce long run unemployment and social exclusion) may promote economic growth, through enhancing trust cooperation and effectiveness that in turn would increase employment. The problem of causality does not affect the effectiveness of policy, since it can increase the stock of “Social Capital” that in turn feeds back through increased economic growth. The main challenge is related to the fact that the consequences of policy are not distinct, possibly making policy makers less willing for such reforms.
- From a theoretical perspective the relationship between the state intervention and civil society (the main component of the term “Social Capital”) is not clear. There are many researchers who believe that market imperfections could be addressed by the parallel co-existence of an interventional state and an extensive civil society. From another perception civil society grows where the state “leaves enough space for it”, underlying a relationship of substitutability (in Putnam’s work, in South Italy the lack of civil society among other reasons is also due to the existence of a paternalistic extensive state). If it is the second case then we have an intrinsic inconsistency talking about how the state could intervene to create and promote civil society. For an efficient policy, the cognition of the exact limits to state intervention for promoting “Social Capital” is essential.

- The last but not the least point is related to the extent to which civil society contributes to economic growth. As it is well known, not every concept of “Social Capital” is appropriate for economic growth, since there are many dimensions of “Social Capital”, which act in an opposite direction. The most influential work in this area is that of Mancur Olson (1965, 2000), who points out the destructive role of the growing organizations, which function to succeed their purposes, creating negative externalities that alter negatively the path of economic growth. If the development of civil society enhances the role of such organizations then it appears that we have a u-turn relationship between the development of civil society and economic growth. At low levels of the stock of “Social Capital” the development of civil society affects, mainly, positively economic growth, by promoting trust, coordination and cooperation, and by reducing transactions costs. But at high levels, where there is enough space for the development of opportunistic associations, then there is a reversion of the positive effects. This possibility impedes the policy action since it presupposes the policy maker to know the exact limits of the positive externalities of the growing civil society.

Although the specificities of social capital impose the aforementioned constraints to political action, there is still enough space for policy, the direction of which is indicated by the empirical research. The potential advantages of the suggestions below are related to the fact that they may affect economic growth through many channels, not only through the ones that the bibliography on “Social Capital” suggests. We can summarize the policy suggestions as follows:

- Policies that promote education. It seems (Helliwell (1996), Glaeser et al, (2000)) that there is a positive relation between the level of education and the probability of participating in social associations (a popular variable of measuring the stock of “Social Capital”). Of course education affects growth by increasing the stock of human capital, but it is also possible to affect growth by increasing the stock of civil society, the main component of “Social Capital”.
- Policy measures that should enhance employment opportunities, and reduce income inequality. This seems a precondition for efficient formations of

“Social Capital”, since high long-term unemployment and income inequality increase the probability of social exclusion that in turn is detrimental to trust, cooperation and the creation of “Social Capital”.

- Policy that would increase participation within ethnic groups, and weaken barriers across groups. The first is essentially an index of social integration, since the participation of immigrants in associations of natives presupposes the affiliation of them in the social body. The second is exactly an indication of the opposite, as it shows separation and diminishes the possibility of interaction. Interaction with other dimensions of diversity (sex, age, income) should also be paid attention.
- Finally, the government should promote laws and policies to enhance activities of non-profit non-governmental groups, which expand opportunities for social participation without discrimination. The basic direction has to be the development of communication among different groups and the enhancement of values like participation and social dialogue.

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