The Use of Social Capital for Development and Poverty Reduction

Lindon J. Robison
and
Marecelo E. Siles

February 2002
The Use of Social Capital for Development and Poverty Reduction

Introduction

The purpose of this paper is to introduce the social capital paradigm, to show its usefulness for development, and to present evidence that social capital has an important role in poverty reduction. Finally, this paper suggests how the World Bank could apply the social capital paradigm to its poverty-reducing activities.

The Social Capital Paradigm

Increasing evidence suggests that the well-being of the poor and others is interdependent. Average household incomes and income disparities for the most part are inversely related. The social capital paradigm can help explain the inverse connection. Moreover, the social capital paradigm can point us to improved economic outcomes.

Social capital deserves attention because its role in development has been so long ignored. The result has been development policies that have sometimes failed to achieve their predicted results. In some regard, the less than expected results from our past development policies have resulted from our failure to account for and manage the important resource of social capital.

The transmission effect that connects social capital to poverty reduction can be easily explained. First, social capital alters the terms and levels of trade. Since the level and terms of trade influence the distributions of benefits from economic activity, then the distribution of social capital influences the distribution of household income. Second, social capital has the capacity to internalize changes in the well-being of those who have social capital. As a result, those who have social capital have potential advantages and receive preferential treatment that increase their likelihood of participating in favorable exchanges. Finally, because social capital internalizes the well-being of those who have social capital, those in social capital-rich networks are more likely to invest in public (high exclusion cost) goods than those who live in social capital deprived networks and communities.

What Is Social Capital?

As scientists and practitioners from different disciplines and problem areas have shared their applications and understandings of social capital, a richer paradigm with increased usefulness has emerged. The increased usefulness of the social capital paradigm has been illustrated by its widespread applications to such diverse topics as educational achievements, health care, crime reduction, investment in public goods, customer retention, advertising, community development, economic growth, and poverty reduction.

One predictable outcome of social scientists and practitioners from diverse backgrounds sharing a common paradigm was the emergence of different social capital definitions. We define social capital as a person or group's sympathetic feelings of admiration, caring, concern, empathy, regard, respect, sense of obligation, or trust toward another person or group. Just as there are a variety of sympathetic feelings, there are different levels of social capital ranging from strong ties of sympathy we call bonding social capital to weaker ties of sympathy
we call linking social capital. Finally, relationships characterized by asymmetric
ties of sympathy, we call bridging social capital.

The introduction of social capital into a range of social science disciplines and
problem areas has provided the means for analyzing development policies and
practices with new “eyes.” The new “eyes” or framework of analysis is referred
to here as the social capital paradigm. The maturing paradigm of social capital
includes the following: (a) social capital; (b) socio-emotional goods; (c)
attachment values; (d) networks; (e) institutions; and (f) power. Capital
represents a store of potential services that can be supplied without it losing its
identity. Social capital satisfies the requirements of capital because it can supply
services and maintain its identity. Furthermore, it is possible to invest (disinvest)
in one’s social capital.

Socio-emotional goods validate the feeling that one has regard, is respected,
admired, and trusted, or that one is the focus of the concern and caring of
others. Almost any personalized exchange of physical goods and services
includes an exchange of socio-emotional goods. Because socio-emotional goods
and physical goods and services are combined in most exchanges, it is nearly
impossible to study poverty reduction that depends on exchanges, without also
studying socio-emotional goods.

Sometimes socio-emotional goods become associated or embedded in objects
such as pets, photos, places, personal items, laws, rights, and promises. As
socio-emotional goods become embedded or associated with objects, they
change the meaning and value of the object. The changed value and meaning
of an object derived from embedded socio-emotional goods is called the object’s
attachment value. When goods acquire attachment values, the demand and
support for these goods are changed.

Social capital exists in relationships (bonding, linking, and bridging). Patterns of
relationships and the distribution of one’s social capital described by networks
can influence the efficiency of production, the use of resources, and the
distribution of benefits. Globalization has had the effect of changing the
composition of networks, leaving some without connections. To understand
poverty and its alleviation, one must be aware of network structures that allocate
resources and impose costs.

Institutions are the rules and rights that make possible ordered and meaningful
exchanges. They also establish membership requirements, procedures for
resolving disputes, and for establishing new institutions. Informal institutions are
usually supported by personalized social capital. Formal institutions, if they are
to be supported, must acquire attachment values.

Power refers to the ability to influence the actions of others that lead to secure
rights. Since rights are what we receive from others, power is the ability to
maintain and secure one’s rights. For example, for the right to unrestricted
access of one’s home and other assets requires that others respect and assent to
those rights. Power comes in various forms. One may secure his/her rights
through one’s social capital, one’s financial or economic capital, one’s access to
punitive measures often available through the legal system, or through strategic
information. Without power, one’s ability to secure both physical goods and
services and socio-emotional goods is threatened.
Social Development Strategy

Because social capital and the production of socio-emotional goods alter the terms and levels of trade, we cannot be guaranteed that existing production practices and existing distribution of social capital and other resources will reduce poverty by “trickle down” benefits to those who lack resources and whose social capital is in resource-poor networks. We must abandon the incomplete paradigm of development that declares that the problems of the poor will eventually be solved if the rest of the economy becomes wealthy enough. Development and equity should be viewed as compatible and complementary goals. The social capital paradigm is a means for examining and recommending policies to achieve the complementary goals of equity and efficiency.

We emphasize the role of social capital in reducing poverty because social capital is an important resource that in many cases has been neglected in past poverty reduction efforts. Of course, we recognize that other forms of capital are necessary for poverty reduction. However, the lesson of the last several decades is that physical, financial, human, and natural forms of capital and institutional structures without social capital are not sufficient to reduce poverty. We believe that the success of development policies and theories of poverty reduction can be improved by incorporating the social capital paradigm into the study and application of poverty reduction.

The Use of Social Capital for Development

One of the first lessons learned from the social capital paradigm is that when arm’s length or hostile relationships exist, socio-emotional goods are produced by maintaining differences, and especially economic differences. For example, one cannot be considered rich and entitled to the validation of that position without the existence of the poor. Thus, the social capital paradigm would teach us that not everyone is motivated to reduce poverty, even when it is in their financial interests to do so.

The second important lesson from the social capital paradigm and from Adam Smith is that productivity increases over a significant range with specialization. As persons specialize in a production task, their skills increase and they often discover improved practices and tools to increase their output. However, specialization is only possible if there are possibilities to trade one's products for what one requires but does not produce. The social capital paradigm teaches us that terms and levels of trade are improved by investments in social capital that reside in networks.

Thus, one's ability to trade and one's access to resources are determined largely by the size, resources, and diversity of one's social capital-rich networks. The limitation of development for the poor is that their activities are concentrated in few and homogeneous networks. As Granovetter’s important work demonstrated, most economic advantages come from networks characterized by diversity. The social capital paradigm points out that linking and bridging networks are essential for the economic development of the poor. However, it also recognizes that bonding networks remain essential for the creation of socio-emotional goods—but are less effective for economic development.

A second important lesson from the social capital paradigm is the recognition of the conditions in which public or high exclusion cost goods are produced.
Social Development Strategy

Incompatible use goods by their nature are of restricted use. If I eat my dinner, an incompatible use good, it is not available for others. In contrast, high exclusion cost goods do not necessarily mean that my use of the good precludes its use by others. Thus, if a road is built, it can be used simultaneously by many and to restrict its use is often costly.

High exclusion cost goods such as public education, roads, potable water systems, waste treatment projects, environmental protection efforts, public safety, and others are frequently under-funded. The under-funding occurs because their benefits cannot be captured by wealthy investors. As a result, among the wealthy and socially disconnected, incompatible use goods substitute for high exclusion cost goods. For example, Land Rovers substitute for roads, bottled water purchased from private producers substitute for public water systems, private education substitutes for public education, private guards substitute for a public police force, and the list goes on. The result, however, is to create a class of underprivileged poor who lack access to high exclusion cost goods and who lack the means to purchase privately owned substitutes.

It is hard to imagine how sufficient investments in high exclusion cost goods can occur in a community that lacks social capital-rich networks. The alternative is, of course, to appeal to foreign donors. But even if there are external grants, the values of these investments are not likely to be democratically distributed.

The third lesson from the social capital paradigm is the importance of rights and power. We have rights if and only if they are provided by or agreed to by others or if the capacity of others who threaten our rights is diminished. Power represents the means by which rights can be maintained or secured. Sometimes we secure rights through financial capital. For example, the right to objects for sale is secured by one’s financial capital. In other cases, rights are secured by one’s social capital. For example, the right to membership in a political, social, or religious group may depend on one’s social capital. Finally, when conflict over rights cannot be resolved using social capital or other forms of capital, parties may resort to violence to intimidate or coerce others to grant one’s rights.

The essential connection between rights and institutions is that they are most likely maintained and created in the presence of social capital. It is extremely difficult to acquire all of the rights needed for peaceful and prosperous living through one’s economic and coercive powers. In the end, almost all of our rights depend on the maintenance of social capital. Striving to maintain and expand our rights through other means will not generate permanent rights and in the end will prove too costly to maintain.

Lastly, development has to do with the creation of positive externalities by the investment in high exclusion cost goods. Externalities are ubiquitous, including market transactions. If I purchase good A, it is not available for others to purchase. Often this is not a problem unless good A cannot be reproduced for others or if the demand for good A increases the price for others. In a broader sense, we often refer to externalities as actions that produce costs or benefits for others without their permission and without creating a cost for ourselves.

The recommended solution for internalizing externalities that has most frequently been recommended is to internalize their cost or benefit so that their production is regulated by traditional economic incentives. Thus, taxes for bad externalities
Social Development Strategy

and subsidies for good externalities have often been the means suggested. When possible, the creation of markets has also been proposed and in some cases practiced. But hostility often prevents the formation of markets with accepted rights and high exclusion cost goods make it difficult to connect buyers and sellers. And taxes are only enforceable if the rights of those bearing the cost of the externality have been secured.

The important connection between externalities and the social capital paradigm is that social capital is the most effective means of internalizing externalities. Agreements on who can produce externalities for whom are most likely to be worked out with mutual satisfaction when social capital-rich relationships sensitize persons to the consequences of their choices on others.

Polluting the river for an upstream user is an externality if the downstream users lack social capital. But if the polluter’s family or friends live downstream, then the externality is effectively internalized leaving us with the important conclusion that social capital defines externalities.

Social Capital and Poverty Reduction

Social capital is essential for poverty reduction for several reasons. First, well-being depends not only on access to adequate supplies of physical goods and services, but also on access to socio-emotional goods which are derived primarily from one’s stock of social capital. When the poor have an opportunity to express themselves, they describe their lack of social capital as one of their major deprivations. Observed World Bank researchers in Egypt, “[Poverty] drives the poor to exclude themselves from the surrounding social networks. . . The maintenance of relations requires money. . . People who are deprived or excluded do not have the material means to live with the rest of the population.”

Finally, because social capital internalizes the well-being of others who are the objects of one’s social capital, one is much more likely to invest in public goods in social capital-rich networks and communities than in those environments in which the persons are not connected by social capital. For the same reasons, acts with negative externalities are likely to be reduced and those with positive externalities are likely to be increased. These distinct and important consequences of social capital are directly related to poverty and help us explain who are poor and what can be done to alleviate poverty.

Who Are the Poor and How Is Their Condition Related to Social Capital?

Who are the poor? One reason we refer to a group as poor is because, compared to others, they persistently lack resources. The World Bank has performed a valuable service by interviewing the poor and giving them a voice to describe themselves. They tell us that their pains resulting from poverty are not just a result of being deprived physical goods and services but also a result of being deprived regard, respect, and membership. Poverty, it appears, is the deprivation of both physical goods and services and socio-emotional goods.

Indeed, social capital and the lack of shared kernels are the essence of poverty. Too frequently, the poor and the rich attend separate schools, live in separate locations, take their meals isolated from each other, worship at different times
and places, marry within their own class, and obtain their medical services at different places. In almost countless ways, the poor are reminded by their separation from the rest of society that they are different. Although there are some well-defined physical requirements that define poverty, the poor often associate it with an absence of social capital and exclusion. And, even though the population of the poor may represent a significant portion of a country's population, their voices are often ignored.

The social capital paradigm and poverty. An important cause of persistent poverty is the poor's lack of social capital in resource-rich networks. In addition, we hypothesize that an informed view of economic development and poverty reduction must account for the influence of social capital on the productivity of other forms of capital and the distribution of benefits. Consider next the contributions of the social capital paradigm to the traditional model and to our understanding of the causes of persistent poverty.

The traditional model suggests that persons specialize and trade based on their opportunities to gain physical and financial rewards. In contrast, the social capital paradigm explains that terms and levels of trade depend not only on one's desire for physical goods and services and productive assets, but also on one's social capital and one's need for socio-emotional goods.

The social capital paradigm recognizes that we value and exchange socio-emotional goods as well as physical goods and services. Indeed, it argues that personalized exchanges almost always include some exchange of socio-emotional goods. Furthermore, since socio-emotional goods are most likely to be exchanged in social capital-rich relationships, terms and levels of trade in physical goods and services will favor and encourage specialization and trade among those with social capital. Thus, the productivity of one's physical and other resources will be influenced by one's social capital. The poor who often lack social capital in resource-rich networks, we hypothesize, must often trade on disadvantageous terms. Furthermore, they often lack information about opportunities for advancement because they lack connections to social capital-rich networks.

The traditional model predicts that in the absence of transaction costs, production will occur in an optimal manner, given the existing distribution of resources. In contrast, the social capital paradigm suggests that resource allocations will be influenced by social capital and production may not occur in an optimal manner. (For example, hiring unqualified relatives may be motivated by the need to preserve one's social capital rather than to achieve economic efficiency.)

The social capital paradigm also connects the distribution of social capital and the distribution of income. The connection is straightforward. The distribution of social capital alters the terms and levels of trade and the terms and levels of trade influence the distribution of income. Therefore, the distribution of social capital must be reflected in the distribution of household income. From this deduction emerges another conclusion, namely, that the distribution of household income can be altered by altering the distribution of social capital. In addition, the connection between distributions of social capital and income also predicts that societies of disconnected persons who lack social capital will be
Social Development Strategy

disadvantaged economically because their lack of social capital will discourage trade and specialization.

It is well recognized that the under-investment in high exclusion cost or public goods contributes to the persistence of poverty. The traditional model suggests that persons must be motivated by self-interest to invest in public or high exclusion cost goods. In contrast, the social capital paradigm expands the definition of outcomes that could be considered to be in one's self-interest. For example, one may find it in his or her interest to invest in public goods if it benefits those who are the objects of his or her social capital. A person may also invest in public goods if one receives socio-emotional goods from the investment. Or, one may invest in public goods if the place that would benefit from his or her support has attachment value.

One means of increasing the willingness of persons to invest in public goods provided in their communities is to increase their attachment to a place or to their community. As community members come to view themselves as connected and linking social capital develops among them, their willingness to invest in goods for the community increases. Furthermore, as their exchange of socio-emotional goods increases, it is likely that these may become embedded in their community and create an attachment value to place. Without feelings of connectedness and social capital, the exchange of socio-emotional goods and physical goods and services is less likely to occur and increases in attachment values to places will likely not occur.

The social capital paradigm also has trading implications. In the traditional model, money and credit permit all trades to be reduced to two steps. One trades goods and services for money and then uses the money obtained in the exchange to obtain other objects. In the social capital paradigm, social capital and socio-emotional goods may play the role of money and credit. On some occasions, among the poor and the well-off, an exchange is most efficiently conducted using socio-emotional goods and investments in social capital. For example, imagine exchanging money with one's neighbor when the exchange involved a small item like a cup of flour or sugar. Or, imagine how much easier it is to obtain assistance from a friend to complete a repair using one's social capital than to work out a financial agreement when there is no established market to value the assistance. In these cases, social capital is like money; it can be used in a multitude of exchanges. Furthermore, because it is durable, it can be stored until such time that it is needed, even though some maintenance is required.

The traditional model equates well-being in terms of access to physical and financial resources and sometimes recognizes the value of these in obtaining high status goods. The social capital paradigm suggests that socio-emotional goods are also important for well-being and these are very difficult to self-produce. So, for most persons, socio-emotional goods can only be obtained through exchanges in social settings. This recognition adds support to the traditional model's emphasis that we are truly interdependent.

Finally, the traditional model recognizes that in some cases markets fail to develop and these failures impede economic development. The social capital paradigm suggests that market failures may often be related to an absence of social capital and sometimes are related to hostile relationships that create
unfavorable conditions for trade by creating negative attachment values. Indeed, the evidence is that few trades occur between hostile groups.

The social capital paradigm predicts that in the absence of formal institutions and a generally connected society, social capital at the local level will substitute for other forms of capital. When it is one’s social capital that permits secure trades, social capital not only provides socio-emotional goods, but it is also the resource that permits economic survival. Of course, social capital used for mostly economic purposes is not as efficient as money, but it can be used as a substitute. The goal is and should be to move from social capital-dependent economies to reliance on formal institutions supported with attachment values. Indeed, as the number of persons in trading networks expands beyond the number capable of maintaining personalized social capital (as all formal and developed economies must), they must adopt and support formal institutions.

Because the social capital of the poor is often geographically concentrated, the poor are often reluctant to move even to take advantage of new economic opportunities because it would cost them the advantages of their network. This immobility of the poor may be a significant impediment to their economic development because globalization and other market adjustments often require relocation and participation in new networks, both of which are difficult for the poor.

**What Policy Prescriptions Are Suggested by the Social Capital Paradigm?**

Having identified the lack of social capital in resource-rich networks as a significant cause of poverty, the prescriptions that follow suggest ways to increase the social capital resources of the poor. We suggest that the World Bank give attention to the following:

**Education.** Promote and increase funding in public education making it a priority high exclusion or public good. Education will never become an opportunity for bridging until the public education system is viewed as a viable alternative to private education. Cultural differences may require that different methods of delivery be used in different circumstances. Clearly, education is best delivered when there are social capital-rich relationships between those involved in the educational experience.

**Technology transfers.** Make efforts to increase the attachment values of new technology. Professional advertisers are skilled in the practice of attaching values to products. Their successes can provide some direction for those desiring to create attachment values for new technologies.

**Activate latent social capital in communities.** Support the conversion of latent social capital to realized social capital in selected communities. This support be conditioned on the formation of local networks with widespread participation. Empower community networks by giving them the responsibility for administering supported projects, selecting contractors, supervising construction, and managing the completed projects. Place public funds intended for communities under the direction of local community leadership with the stipulation that they demonstrate community consensus in the use of the funds.
Leadership development. Create leadership programs in cooperation with national universities with interns participating in community social capital building programs. The development of local social capital-rich networks requires local leaders who have social capital with their communities. Therefore, having leaders in communities must often precede the development of latent social capital. Successful local leaders have social capital and they use it to better their communities. The connection between the new leaders and the community could be strengthened by expecting the community to select and support this person.

Part of the leadership training should include how to maintain, create, and use social capital for the development of communities and states. Emphasis should also be focused on how social capital-rich networks can be used for a variety of development purposes.

Maintain social capital through employment. Support the establishment of a system of exchange in which those with needs for public assistance be provided opportunities to exchange their services to the communities or to others in need, in exchange for goods provided by the community. Distributions of welfare benefits have the capacity to produce negative socio-emotional goods. This negative consequence can be avoided by allowing those who receive benefits to earn positive socio-emotional goods by contributing to the community.

Building attachment values to place. Make an effort to create attachment values for communities and countries. This can only be done by providing persons with a sense of ownership and control over the conditions and events that occur in their place of residence.

Empowering local networks. Create in selected communities public settings in which community members determine their most pressing needs and then organize to obtain the resources needed to achieve their goals. The quality of community life is linked to interlocking networks that create attachment values for their place and support for their institutions.

Utilize the advantages of family networks. Promote an increased access of family organizations to credit and professional support. Important efforts must be extended to provide training and access to single-parent households on terms they can access.

Strengthen free markets to build social capital. Support funding for public funds to create and support formal market settings. These may include investments to support the exchange of information, the establishment of grades and standards, and inspection services to promote the safety of consumers. Make efforts to increase the poor’s participation in markets by research about products they could produce that might be in demand.

Support formal institutions. Poverty reduction strategies must be focused on building social capital in households, then in communities, and then larger networks. This does not mean that macro policies of poverty alleviation should be ignored. But, it does mean that to be effective, they must be accepted and supported at the local level and in households.

Summary and Conclusions
The social capital paradigm enhances the traditional model and adds new insights about the causes of poverty. It suggests that an absence of social capital in resource-rich networks may create for the poor unfavorable terms and levels of trade and limit their ability to take advantage of new economic opportunities. The social capital paradigm also suggests that absent linking social capital, communities are likely to under-invest in public goods, an outcome whose negative consequences fall disproportionately on the poor. Moreover, the evidence is that the distribution of social capital alters the terms and levels of trade, and these influence the distribution of income whose inequality reflects the uneven distribution of social capital.

The importance on social capital on development outcomes leads to an obvious necessity. Economic development projects should be evaluated from the perspective of the social capital paradigm. An evaluation of projects from the perspective of the social capital paradigm should consider the following:

1. How will the prescription reinforce or weaken the social capital residing in networks of the poor and how will it increase their links to other networks to which they are excluded?

2. What are the likely flows of socio-emotional goods produced by the prescription and hence where are social capital investments and disinvestments that are likely to be produced by the prescription?

3. What institutions (formal or informal) are required for the successful implementation of the proposed prescription?

4. How will attachment values for new or existing institutions be changed by the prescription?

5. How will terms and levels of trade that determine the distribution of income and that depend on one's social capital be altered by the prescription?
Social Development Strategy

References


Notes


2Lindon J. Robison and Marcelo E. Siles are Co-Directors of the Social Capital Initiative at Michigan State University.

3See Narayan, et al., p. 137.