SOCIAL CAPITAL INITIATIVE

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Working Paper No. 5

SOCIAL CAPITAL: CONCEPTUAL FRAMEWORKS AND EMPIRICAL EVIDENCE

AN ANNOTATED BIBLIOGRAPHY

By Tine Rossing Feldman and Susan Assaf

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FOREWORD

There is growing empirical evidence that social capital contributes significantly to sustainable development. Sustainability is to leave future generations as many, or more, opportunities as we ourselves have had. Growing opportunity requires an expanding stock of capital. The traditional composition of natural capital, physical or produced capital, and human capital needs to be broadened to include social capital. Social capital refers to the internal social and cultural coherence of society, the norms and values that govern interactions among people and the institutions in which they are embedded. Social capital is the glue that holds societies together and without which there can be no economic growth or human well-being. Without social capital, society at large will collapse, and today's world presents some very sad examples of this.

The challenge of development agencies such as the World Bank is to operationalize the concept of social capital and to demonstrate how and how much it affects development outcomes. Ways need to be found to create an environment supportive of the emergence of social capital as well as to invest in it directly. These are the objectives of the Social Capital Initiative (SCI). With the help of a generous grant of the Government of Denmark, the Initiative has funded a set of twelve projects which will help define and measure social capital in better ways, and lead to improved monitoring of the stock, evolution and impact of social capital. The SCI seeks to provide empirical evidence from more than a dozen countries, as a basis to design better development interventions which can both safeguard existing social capital and promote the creation of new social capital.

This working paper series reports on the progress of the SCI. It hopes to contribute to the international debate on the role of social capital as an element of sustainable development.

Ismail Serageldin
Vice President
Special Programs

THE INITIATIVE ON DEFINING, MONITORING AND MEASURING SOCIAL CAPITAL

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SOCIAL CAPITAL - CONCEPTUAL FRAMEWORKS AND EMPIRICAL EVIDENCE:

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INTRODUCTION

In developing and transitional regions, we often observe countries with similar endowments of natural, physical, and human capital achieving very different levels of economic success. This paradox has led scholars on a search for deeper and more meaningful explanations about what holds people and societies together in order to foster economic development. Over time, scholars have constructed various frameworks for understanding the social aspects of this phenomenon and what we currently refer to as "social capital". Fueled by continuous empirical investigations, these frameworks have evolved quite rapidly in recent decades. *James Coleman* popularized the term as he sought to conceptualize the aspects of social structure that facilitate economic transactions. His work is widely recognized as one of the most significant, as is *Robert Putnam's* study of voluntary associations in Italy. Putnam concluded that the high density of voluntary associations in the north was responsible for the region's economic success.

Many others have also made significant strides in advancing our knowledge and understanding of the subject. This annotated bibliography identifies some of the ideas that have been instrumental in shaping current thought about social capital. It also examines the empirical research which has been vital to the formulation of these ideas. As a starting point, we identified approximately 105 sources that are frequently cited by anthropologists, economists, political scientists, and sociologists as making significant contributions to the overall conceptual or empirical development of social capital. We then selected the more recent publications which, in our view, played a particularly seminal role in the development of the field.

Although much has been accomplished in recent decades, additional empirical work must be undertaken in order to continue developing the conceptual aspects of social capital. The twelve research projects of the Social Capital Initiative hope to provide some key information to contribute to the discussion. The projects cover an array of development issues from improving community water and sanitation programs to rebuilding a society in the aftermath of conflict. By utilizing a variety of different approaches and implementation strategies, the projects seek to answer questions about defining, monitoring, and measuring social capital.[1]

[1] To obtain further documentation on the Social Capital Initiative, please see the inside cover of this document.

CONCEPTUAL FRAMEWORKS

One of the earliest pioneers in the study of social capital is Lyda Judson Hanifan (The Community Center, 1920) who argued that "social capital… refer[s] to … those tangible assets [that] count for most in the daily lives of people: namely goodwill, fellowship, sympathy, and social intercourse among the individuals and families who make up a social unit".[2] Others include *Jane Jacobs* (The Life and Death of Great American Cities, 1961), *Pierre Bourdieu* and *Jean-Claude Passeron* (Reproduction in Education, Society and Culture, 1970), and *Glenn Loury* (A Dynamic Theory of Racial Income Differences, 1977). In the past 10-15 years, Robert Putnam and James Coleman are credited with bringing the term "social capital" to prominence. Putnam viewed social capital as a set of horizontal associations between people which foster cooperation for the mutual benefit of the community. Coleman later expanded this narrow definition to include vertical relationships characterized by a hierarchical structure and unequal power distribution. He also suggested that social capital could even yield useless or harmful affects for society as a whole.

A third – and even broader – concept of social capital developed which encompassed formalized institutional relationships and structures such as government, the political regime, rule of law, and the court system. In Institutions, Institutional Change and Economic Performance, *Douglass North* contends that it is institutional change at this magnitude that shapes the way societies evolve over time. With a particular focus on human cooperation, he argues that historically, "the evolution of institutions that create a hospitable environment for cooperative solutions to complex exchange provides for economic growth."[3] An historical perspective was also taken by *Mancur Olson* in The Rise and Decline of Nations, but one that examines the declining rates of economic growth and stagnation. Olson believed that if a society enjoys political stability for a long period of time, it is more likely to develop strong special-interest groups that in turn decrease the efficiency of a society from an economic standpoint. *Robert Bates* sought to advance North's perspective in "Institutions as Investments," by exploring the interaction between the search for capital and the reforms that states undertake to restructure their economies in order to enhance their standing in international capital markets.

Pierre Bourdieu brought forth the idea that capital can be converted from one form into another. In "The Forms of Capital," he differentiates between economic, cultural, and social forms of capital, and illustrates how they are distinguished from one another according to how easily they are transmitted. Bourdieu contends that this conversion process is used by individuals and social groups to ensure the reproduction of capital.

The role of social capital in development was addressed by *Ismail Serageldin* in "Sustainability as Opportunity and the Problem of Social Capital" in terms of its contribution to sustainability. In "The Missing Link", *Christiaan Grootaert* examines the subject by distinguishing between micro- and macro-level institutions. He and Serageldin later take an integrating view of these various approaches by combining several of these concepts and focusing on their complementarity. In "Government Action, Social Capital and Development," *Peter Evans* examines a variety of new ideas about how and under what conditions civic society and public institutions can jointly become more effective catalysts for development. Similarly, *Hernando de Soto's* study of the

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2 Woolcock, M. 1998. "Social Capital and Economic Development: Towards a Theoretical Synthesis and Policy Framework." *Theory and Society*, 27: 151-208, p. 192.

3 North, D. 1990. Institutions, Institutional Change, and Economic Performance. New York: Cambridge University Press, p. vii.

informal economy in Peru outlines a "path" where the key to transforming a country lies in the transformation of legal institutions.

The absence of constructive interaction between the micro- and macro-levels can result in a significant breakdown of trust – one of the most important and most widely discussed elements of social capital. As *Richard Rose* illustrates in "Russia as an Hour-Glass Society", the high degree of distrust in government and civil society institutions has led Russian citizens to rely strictly on the trust and cooperation inherent in their dense horizontal networks of friends and relatives. *Amitai Etzioni* also focuses on the importance of cooperation and communities in his book, <u>Spirit of Community</u>.

Building on Coleman's concept, *Francis Fukuyama* more recently argued for the establishment of large, democratic, and capitalistic organizations — especially corporations — to achieve economic success. In <u>Trust: The Social Values and the Creation of Prosperity</u>, he emphasizes the necessity of trust, which he uses as a measure of social capital and believes is embedded in cultural factors such as ethical and moral behaviors. According to Fukuyama, trust arises when a community shares a set of moral values in such a way as to create expectations of regular and honest behavior. The motives necessary to sustain trust and the environmental conditions that foster it are examined by *Diego Gambetta* in a collection of essays from twelve distinguished scholars. In <u>Trust: Making and Breaking Cooperative Relations</u>, he also explores a range of historical case studies of cooperation and its breakdown.

Studying the complementarity and interrelatedness of local organizations and the institutions of the state and market is yet another way social capital has been examined. In <u>Grassroots Organizations and NGOs in Rural Development</u>, *Norman Uphoff* concludes that these local groups deserve more attention as channels for development, and that these informal institutions are revitalized when both the state and market fail to meet peoples' expectations and needs. *Elinor Ostrom* illustrates the diversity of solutions that go beyond the market and the state when solving problems related to common property resources. In <u>Governing the Commons</u>, she suggests that building institutions of self-government through collective action can be far more effective than enforcing rules imposed from external sources. While *Albert Hirschman* was studying such collective action development efforts in Latin America, he discovered an important element common to the majority of the participants in his case studies: most of them had been involved in previously unsuccessful collective action activities. In <u>Getting Ahead Collectively</u>, Hirschman illustrates a number of situations where these failed experiences provided individuals with a "renewal" of energy that they were able to mobilize for the common benefit.

Another "bottom-up" conceptualization of social capital is championed by *Mark Granovetter*, who argues that economic transactions are embedded in social relations. This concept of embeddedness, as he describes in "Economic Action and Social Structure", focuses on how personal relationships and networks of connections generate trust and discourage malfeasance in economic life. *Michael Woolcock* also constructs a framework where embeddedness is a primary factor, but one that makes a distinction between the micro-level and the macro-level. In his essay, "Social Capital and Economic Development: Towards a Theoretical Synthesis and Policy Framework," Woolcock illustrates specific combinations of different types of social capital at both levels that help determine whether the costs and benefits have developmental or destructive purposes.

EMPIRICAL EVIDENCE

There is a substantial body of empirical work that relates to the definitions of social capital which emphasize micro-institutional issues. Some of the significant findings show that local associations and networks do, indeed, have a positive impact on economic welfare and local development, and play a positive role in environmental management.[4] A specific type of network that has proven to be beneficial for local development and welfare is microenterprise programs, such as rotating savings and credit associations (RoSCAs). In "The Economics of Rotating Savings and Credit Associations," *Timothy Besley, Stephen Coate,* and *Glenn Loury* examine the economic role and performance of different types of RoSCAs. In these small, often indigenous, savings and credit groups, social relationships—or social capital—is used as an alternative source of collateral. The social capital of the poor members is thereby acting as a substitute for their lack of physical or financial capital. In "Cents and Sociability: Household Income and Social Capital in Rural Tanzania", *Deepa Narayan* and *Lant Pritchett* focus on the welfare of households. Via a survey of 750 Tanzanian households, they measure the degree and characteristics of associational activity (proxy for social capital) and levels of trust among them. Through a multivariate regression analysis, they establish that *village-level* social capital is an important contributor to *household welfare*. This data also suggests that social capital is indeed both social and capital, in that household outcomes primarily depend on *village-level* social capital, and that it raises income.

In another study, Local Organizations: Intermediaries in Rural Development, *Milton Esman* and *Norman Uphoff* observe the positive importance of networks by stating that local associations play a crucial role in the development of agrarian societies throughout the world. In their sample of 150 rural local organizations from all parts of the Third World, they emphasize the role that participation in these organizations plays in "development from below." Finally, in "The Prosperous Community — Social Capital and Public Life," *Robert Putnam* uses lessons from his empirical research on regional institutional performance in Italy to discuss the connection between social capital and America's social problems. Through an analysis of Italian regional-level data from the nineteenth century to the 1980s, Putnam shows that some regions had relatively high levels of social capital while others had much lower levels. Putnam's analysis provides strong evidence that this social capital embodied in norms and networks of civic engagement is a precondition for both economic growth and effective government. In addition, the historical record suggests that the economic welfare of these communities stem from being civic, not visa versa.

Putnam also argues that civic engagement must strengthen state institutions, while effective state institutions, in turn, create an environment in which civic engagement is more likely to thrive. This "embeddedness" approach is supported by *Judith Tendler* in Good Government in the Tropics. By drawing on cases of good performance by a state government in Brazil, she illustrates how people working in public agencies can be closely embedded in the communities they work with, and thereby create social capital that develops the synergy between the public and private sector.

"The East Asian Miracle" is another strong empirical example of the central role of ties that cross public-private boundaries. The term embodies how the economies of East Asia were transformed from low-productivity agrarian nations to, until recently, the most rapidly growing industrial economies in the world. The dynamics behind this "miracle" are the focus of three of the

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[4] SCI Working Paper No. 1, p. 15.

reviewed texts in this bibliography. In The East Asian Miracle: Economic Growth and Public Policy (1993), the *World Bank* concludes that state/society linkages played a central role in the East Asian economic transformation. This argument is supported by *Joseph Stiglitz* in "Some Lessons from the East Asian Miracle" and *Peter Evans* in Embedded Autonomy: States and Industrial Transformation. The latter book is an in-depth empirical analysis of the state's role in promoting industrial growth. All three texts make the case that it is the extensive web of dense networks between officials in government organizations, such as Japan's MITI, and managers from private sector corporations that help generate a "joint project" of industrial transformation. This connection is made more explicit in the text mentioned earlier by Evans, "Government Action, Social Capital and Development: Reviewing the Evidence on Synergy": "Social capital inheres, not just in civil society, but in an enduring set of relationships that span the public-private divide...it is social capital built in the interstices between state and society that keeps [economic] growth on track" [p. 1122].

The above studies also exemplify how government policies and robust bureaucratic structures provided an enabling environment that enhanced efficiency, exchange of information, and cooperation between government and industry. The East Asian public institutions share characteristics such as meritocratic recruitment, good salaries, sharp sanctions against violations of organizational norms and solid rewards for career-long performance.[5] Without these structures, the high degree of close relations between public officials and business elites who command vast private resources would inevitably have created attractive opportunities for rent-seeking, which, consequently, could have overwhelmed the joint public-private project of industrialization.

While a significant body of empirical work has improved the understanding of micro-institutional social capital, more empirical work is needed to further the development of a similar framework for the broader, macro-oriented, social capital definitions. Yet, several important trends are already visible in the current macro-institutional empirical work. A growing number of scholars from both the economic and social traditions are exploring either the direct or indirect connections between social capital and economic development. Four of the texts included in the present bibliography follow the former approach by estimating the direct impact of different kinds of social capital on economic growth, investment or equity. These studies are all cross-country analyses that focus on the political or democratic aspects of society. In "Does Social Capital Have an Economic Payoff?" *Stephen Knack* and *Philip Keefer* use data from the World Values Surveys for a sample of 29 countries to get direct measures of trust and civic cooperation. These two indicators are then used as proxies for social capital and the data shows that both variables strengthen economic performance. The study also indicates that trust plays a larger role in facilitating economic activity in low-income countries with less well-developed financial sectors, insecure property rights and unreliable contract enforceability. However, contrary to Putnam's suggestions, the authors found no relation between either horizontal networks and trust and civic norms, nor between associational activity and economic performance.

[5] P. Evans (1996), Government Action...: p. 1126.

Instead of trust and civic cooperation, two other studies emphasize the political environment as a component in their regression models. *Robert Barro* uses the political regime as the variable in "A Cross-Country Study of Growth, Saving, and Government," in which he addresses government policies and their effects on a country's economic performance. Using data across 72 countries he analyses the determination of the growth rate of real per capita GDP, the ratio of physical investment expenditure to GDP, and the amount of investment in human capital (secondary school enrollment rates, population growth rate). According to his results, political instability is a variable that seems to be negatively associated with economic growth, but so far no definite causal relationship has been empirically established. In "Political Instability, Freedom, and Economic Growth," some of *Jakob de Haan* and *Clemens Siermann's* data suggest that political instability hampers investment, while political repression can further growth. Yet, the data reveal mixed results. They suggest that further research should investigate the argument that it may be the lack of economic growth that affects political stability, instead of Olson's opposite causality.

In "Social Integration and Disintegration", *Robert Klitgaard* and *Johannes Fedderke* go beyond the political and government factors by using social integration and disintegration as their variables. Despite imperfect indicators, their analysis indicates some correlation between social integration and growth levels, in that countries with lower growth levels exhibit more social disintegration on almost every indicator. More specifically, due to the complexity of social integration, some aspects may be positively related to economic development, whereas other aspects are either negatively related to or independent of it.

Robert Barro. 1989. “A Cross-Country Study of Growth, Saving and Government”. National Bureau of Economic Research Working Paper 2855. Cambridge, Mass.

In this working paper, Robert Barro addresses government policies and their effects on a country’s economic performance. The study he undertakes is an empirical investigation of the growth experiences of a number of countries in the post-World War II period. It assesses the effects of various kinds of public services and taxation on long-term rates of growth and saving. Barro derives the framework of his study from recent theories of endogenous economic growth.

The paper is divided into four parts. In part I, Barro introduces a model where public services and taxation affect an economy’s long-term growth and saving. He considers the effects of public services on private production and household utility, the influences of governmental activities on property rights, and the effects of taxation on private incentives to save and invest. The model, however, neglects population growth, does not distinguish between physical and human capital, and concentrates on steady-state results. Since population growth appeared to interact closely with the level and growth rate of income as well as with investment in human capital, Barro incorporated these elements into the model using results from existing literature. Measures for these new variables described in part II include time spent raising children, human capital per person, and time spent producing goods. In part III, Barro introduces some transitional dynamics into the model, such as the treatment of human capital as the sum of raw labor and accumulated human capital, and the cost of raising children as including goods as well as time. He finds that increases in per capita income go along with decreases in population growth and increases in the amount invested in each person’s human capital.

In part IV, Barro discusses the results of his empirical work. Using data across 72 countries from 1960 to 1985, he analyses the determination of the growth rate of real per capita GDP, the ratio of physical investment expenditure to GDP, the amount of investment in human capital determined by secondary school enrollment rates, and the rate of population growth. Barro’s strategy is to consider cross-country differences in the context of changes in the level of income as an economy moves from a low level toward steady-state per capita growth. The results show that some aspects of government services affect growth and investment as predicted by the theoretical models. Specifically, public consumption spending is systematically inversely related to growth and investment, and public investment tends to be positively correlated with growth and private investment. There was a strong negative interaction between population growth and investment in human capital which indicates the tradeoff between the quantity and quality of children. Although Barro considers these findings to be preliminary, he concludes with the hope that his research will result in greater understanding of the factors that influence long-term economic growth, and the government’s role in this process.

Robert Bates. 1996. “Institutions as Investments”. Harvard Institute for International Development Development. Discussion Paper 527.

By applying the logic of the “new institutionalism”, Bates’ essay focuses on how the desire for investment, capital formation, and growth motivate the creation of non-market institutions. He argues that the reforms that accompanied the recession and debt crisis of the 1980s represents attempts to restructure domestic political institutions in a way that will secure readmission to international capital markets. Bates first explores the problem of time consistency and the implications of the solutions for the creation of non-market institutions. He then discusses the implications of his analysis for the reform of political institutions.

The problem of time consistency stems from the uncertainty of future rewards for present sacrifices. The risks include those of non-performance as well as opportunistic actions by the parties involved. Bates discusses several solutions to these problems by illustrating the results of previous studies. For example, one study of long-distance trade in West Africa illustrates how repeated interaction enables the creation of reputations which are highly valued and therefore constitute an incentive for non-opportunistic behavior. Another study of two villages in Central Africa showed that by joining communities, individuals made themselves vulnerable to social sanctions that would reduce the benefits of opportunistic behavior.

In addressing the implications of these solutions for non-market institutions, Bates turns to the role of culture and community. He acknowledges, however, that their mechanisms for safeguarding exchanges offer limited reassurances since they rely on repeated interaction and are subject to unequal power relationships. He then moves on to vertical structures (or institutions) which define ownership and elicit private choices that support long-term cooperation.

Bates then builds on existing studies in applying his analysis to the reform of political institutions. One solution to the problem of time consistency explored by Firmin-Sellers and North and Weingast involves the creation of a corporate body or legislature. A later argument brought forth by Soskice, Bates, and Epstein suggests that governments are more far-sighted in their decision-making when the incentives for junior and senior members are linked. Underlying the arguments of some other scholars is a belief that strengthening the private market is done at the expense of the state. However, as Bates concludes, the benefits from capital markets can be obtained by forging effective political institutions and thereby indicating the desire to invest.

Timothy Besley, Stephen Coate, and Glenn Loury. 1993. "The Economics of Rotating Savings and Credit Associations". *American Economic Review* 83(4): 792-810.

The three authors use a model from economic game theory to examine the economic role and performance of rotating savings and credit associations (ROSCAS). These informal financial institutions are often found in poor communities, in that they provide a way to make joint savings work for individuals who cannot obtain conventional credit due to a lack of creditworthiness. For ROSCAS to function properly, it is important that the members keep their commitment to contribute to the ROSCA even after they have won the pot of funds. This may appear problematic, bearing in mind that the ROSCA members do not have the conventional creditworthiness. Yet, ROSCAS work because they use the social relationships among the members as an alternative source of collateral. In other words, social restraints curb the incentive to defect. Typically, successfully ROSCAS are therefore constituted by people who know each others' circumstances and characteristics very well. "Defaulters are sanctioned socially as well as being prevented from any further ROSCA participation" [p. 794].

Previously, ROSCAS have attracted much attention from anthropologists due to their prevalence and, to a lesser degree, their robustness. This paper increases the economic focus on these institutions. More specifically, the analysis concerns the way ROSCAS provide an opportunity to save up for the purchase of indivisible goods, i.e. goods that cannot be split and divided among more than one person, such as a bicycle. The focus is on two different types of ROSCAS: where the random ROSCA allocates its funds randomly, the pot of funds is allocated via a bidding procedure in a bidding ROSCA.

The analysis is organized in five sections. Section I outlines the model, which clarifies how a group of individuals without access to credit markets can improve their welfare by joining either a random or bidding ROSCA. Sections II, III and IV describe how ROSCAS function and their impact on savings rates. Finally, Section V argues how concerns about default influence both the design and performance of ROSCAS. Even though default problems are commonly circumvented, they do happen, which the organizers must bear in mind. The choice of ROSCA type also depends on their relative performance in terms of their members' welfare.

The findings are contained in Section VI. First, both types of ROSCAS allow individuals lacking access to credit markets to improve their welfare. However, when the ROSCA members are homogenous, randomization is preferred over bidding to allocate funds. In contrast, when there is a range of opinions among the individuals in how they value the indivisible good, bidding may be the preferred way to allocate rights to the pool of money. Second, the issue of sustainability seems to be more problematic in bidding than in random ROSCAS, since the gains from early default are greater. There is a stronger incentive for members with either the least to gain from social approval or little to lose from sanctions to bid in order to obtain the pool of money early. Finally, the authors point to outstanding theoretical issues. They suggest a comparison between the allocations attained by ROSCAS and those that are, in principle, feasible for the group. This question is examined in a companion paper,[6] which illustrates that ROSCAS generally do not produce efficient allocations. It also shows that while credit markets are superior to bidding ROSCAS, the element of chance offered by random ROSCAS is still of value.

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[6] Besley et al., "On the Allocative Performance of Rotating Savings and Credit Associations," Research Program in Development Studies at Princeton Universtiy Discussion Paper N o. 163, 1992.

Pierre Bourdieu. 1986. "The Forms of Capital", in J. Richardson, ed. *Handbook of Theory and Research for the Sociology of Education*. Westport, CT: Greenwood Press.

In the context of the field of education, Bourdieu differentiates between three forms of capital – economic, cultural, and social – and their contribution to scholastic achievement. His focus is on the convertibility of capital (e.g. how these forms change into one another) and how this process forms the basis of the strategies adopted by individuals and social groups to ensure the reproduction of capital.

Bourdieu believes that in order to understand the structure and functioning of the social world, it is necessary to discuss capital in all its forms and not solely in the one form recognized by economic theory. In particular, the exchanges that economic theory considers non-economic because they do not directly maximize profit are those that ensure the transformation. During this change, the most material types of capital (those that are economic in the restricted sense) present themselves in the immaterial form of cultural capital or social capital, or vice-versa. Bourdieu contends that the different types of capital can be distinguished according to how easily they are transmitted: economic capital is immediately and directly convertible into money and may be institutionalized in the form of property rights; cultural capital is convertible, under certain conditions, into economic capital and may be institutionalized in the form of educational qualifications; and social capital is convertible, under certain conditions, into economic capital and may even be institutionalized in the form of a title of nobility.

Social capital, as defined by Bourdieu, is "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – or in other words, to membership in a group – which provides each of its members with the backing of the collectively-owned capital." He continues to say that, "the volume of the social capital possessed by a given agent thus depends on the size of the network of connections he can effectively mobilize and on the volume of the capital (economic, cultural, or symbolic) possessed in his own right by each of those to whom he is connected" [p. 249]. Bourdieu also acknowledges that the mechanisms of delegation and representation which enable a number of individuals to act as one and to overcome the limits of space and time may also "contain the seeds of an embezzlement or misappropriation of the capital which they assemble" [p. 251].

James S. Coleman. 1988. "Social Capital in the Creation of Human Capital." *American Journal of Sociology* 94. (Supplement) S95-S120.

James Coleman introduces social capital as a conceptual tool for understanding a theoretical orientation to social action that combines components of both sociological and economic perspectives. His aim is to import the economists' principle of rational action for use in the analysis of social systems. Coleman discusses how social capital is created and examines three different forms in which it manifests itself. Using data from a previous study on high school students, he then illustrates how social capital is used in the creation of human capital by demonstrating its effect in the family and in the community on the educational development of youth.

Coleman states that social capital is defined by its function. He believes that it is not a single entity, but a variety of different entities with two elements in common: 1) they consist of some aspect of social structure; and 2) they facilitate certain actions of actors within the structure. He emphasizes two specific types of social structures that are especially important in facilitating the various forms of social capital. The first is one that creates closure in the social network so that all actors are connected in a way that obligations as well as sanctions can be imposed upon its members. The second is an organization created for one purpose but utilized for another. Coleman refers to the latter as "an appropriable social organization"[p. 108]. According to Coleman, social capital can take on three forms. The first of which he identifies as the obligations and expectations which depend on the trustworthiness of the social environment. The rotating-credit associations of Southeast Asia formed by groups of friends and neighbors are used to illustrate the importance of this trust. The second is the capability of information to flow throughout the social structure in order to provide a basis for action. The third form is the presence of norms accompanied by effective sanctions.

In illustrating how social capital is utilized in the creation of human capital, Coleman uses a data set from his earlier work with a random sample of 4,000 students from public schools. A weighted logistic model is used to carry out the analysis. Some of the variables included as measures of a family's financial, human, and social capital were socioeconomic status, race, number of siblings, number of changes in school due to family residential moves, mother's employment status, and presence of both parents in the household. Coleman found that the single measure of human capital formation reliant on the supply of social capital was remaining in high school until graduation versus dropping out. The results showed that social capital present in the family and the community had a considerable value in reducing the probability of dropping out. It is this public good aspect of social capital that Coleman believes is the fundamental difference between social capital and most other forms of capital which have strong implications for the development of youth. However, since most forms of social capital are created or destroyed as by-products of other activities, those who generate the social capital ordinarily capture only a small part of its benefits. This, Coleman concludes, is a fact that leads to underinvestment in social capital.

James S. Coleman. 1990. *Foundations of Social Theory*. Cambridge, Mass: Harvard University Press.

James Coleman provides a theoretical foundation for linking individual, organizational and societal behavior, by applying the economic concept of rational choice to the traditional issues of sociology, such as social structure and social choice. Throughout much of the book, Coleman uses an analysis of networks of social capital to explain social behavior. In addition, the concept itself is elaborated in a separate chapter, where the author first compares social capital to human capital, then discusses different forms, relative quantities and the public-good aspect of social capital. Finally, Coleman looks at the creation, maintenance and destruction of social capital.

The book is organized into five parts. In Part I, the basic building blocks of the theory are introduced — actors, resources, interests, individual rights, authority, and trust relationships. The focus of Part II is the "micro-to-macro transition": the theory of rational individual behavior is applied to the units developed in Part I to infer how systems of actors will behave. The main concerns are with social exchange, crowd behavior, and the emergence of social norms. Part III outlines a theory in which the principal actor is the organization rather than the individual. Coleman's primary goal is to explain how and why individuals commission formal institutions to act on their behalf, in addition to the means that can revoke such authority. In Part IV, the theories developed earlier are employed to illustrate developments in contemporary social and economic life. In the final segment, Part V, Coleman mathematically formalizes many of the theories developed earlier to reflect ways in which transactions take place in social systems.[7]

In the chapter on social capital, Coleman argues that social capital is defined by its function. "Like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence. Like physical capital and human capital, social capital is not completely fungible, but is fungible with respect to specific activities. A given form of social capital that is valuable in facilitating certain actions may be useless or even harmful for others. Unlike other forms of capital, social capital inheres in the structure of relations between persons and among persons. It is lodged neither in individuals nor in physical implements of production" [p. 302].

Among his broader arguments, Coleman makes an important distinction between his view on rational choice and the one generally held by economists. He claims that one important difference is related to the way mediums of exchange is perceived. "As much as any single difference, it is the absence of money that sets off noneconomic exchanges from economic ones" [p. 119]. When the exchange of goods was developed in market economies, the introduction of money largely eliminated what Coleman calls a "double coincidence of desires", where each individual involved in a transaction had to want a good possessed by the other, in addition to being willing to give up his own good to acquire possession of the other's. According to Coleman, since there is no currency involved in social exchange, this constraint remains prominent. The need for double-coincident desires in such exchanges can therefore only be eliminated indirectly — through the use of social capital. Coleman further argues that if social environments lack social capital networks, social exchange will tend to be inefficient in the same ways that barter economies cause inefficient allocations of goods.

[7] These structures are all based on actors and events as the two basic elements of a system of action, linked together by the control of actors over resources and events and the interest of actors in resources and the consequences of events for them [p. 667].

Jakob de Haan and C. Siermann. 1996. "Political Instability, Freedom, and Economic Growth: Some Further Evidence". *Economic Development and Cultural Change* 44: 339 -50.

Authors de Haan and Siermann state that although the impact of political and institutional factors on the rate of economic growth has received much attention, attempts to discover how and under what conditions have been few. They begin the article by reviewing some recent systematic attempts to analyze the importance of these factors in explaining cross-country variances in economic growth. They The first of three purposes to this article is to examine whether empirical relationships between political instability and political freedom (as measured globally by other researchers) are also valid for smaller geographic areas. The second purpose is to analyze whether results of previous estimates are sensitive with respect to the definition of measures for political instability and freedom; and the third, is to investigate the relationship between political instability and political freedom and the investment-income ratio (IIR).

Using data for a sample of 97 countries during the 1963-1988 period, de Haan and Siermann test whether political instability and lack of political freedom are negatively correlated with economic growth. They use a cross-section model based on a simple neoclassical production function. Their measure of political instability was based on the total number of government changes and their measure of political freedom was based on R.D. Gastil's political rights index.

In addressing these relationships at a regional rather than global level, they found some evidence that the lack of political stability affects economic growth in Africa. This finding was not robust, however, since other measures of political instability significantly altered the outcome. In Asia, there was evidence that political instability hampers investment, but political repression and growth were positively associated. There was also mixed evidence that political repression reduces economic growth in Latin America; however, this result was highly dependent on the construction of the political repression variable.

Building on a study which argues that political repression affects economic growth mainly through the IIR, de Haan and Siermann find that their indicators for political instability are negatively related to the IIR. In Latin America, there was mixed evidence that political repression may hamper the formation of capital. De Haan and Siermann close by noting that they did not address the issue of causality. They cite Mancur Olson's argument that it may be the lack of economic growth that affects political stability, instead of vice-versa. Since the results reported in their research do not support this contention, they suggest that future research investigate the possibility.

Hernando de Soto. 1989. *The Other Path: The Invisible Revolution in the Third World*. New York: Harper and Row.

The Other Path is an exhaustive study of the “informal” economy — or the black market — in Peru. Author Hernando de Soto first describes the magnitude and complexity of economic activities carried out outside the law in Peru, then examines the mercantilist origins of social injustice and economic failure in Latin America as a whole. The book tells the story of the migrants, or “informals”, who built the informal economy during the past 40 years, and shows how Peru developed into a country where these activities contribute almost 40% of GDP. De Soto also explains why legal institutions have been unable to adapt to change and how the new institutions developed by the informals provide an alternative on which an order — open to all Peruvians — can be based.

Working with researchers at the Institute for Liberty and Democracy, de Soto spent six years gathering information from direct contact with informal business owners and workers. His research was based on his doubts about several widespread assumptions, primarily that the mechanisms and institutions which have permitted development in other parts of the world are unable to function in Latin America. Dividing the book into three main parts, de Soto first explains the logic behind the way informality functions. He describes how the informals have developed their own laws and institutions and illustrates how — in housing, transportation, and trade — informals are gradually taking over the market. In the second part of the book, de Soto shows the importance of legal institutions and identifies, measures, and classifies the costs associated with being protected by the law, as well as not being protected. Finally, he argues that the emergence of the informal sector is a revolt against the mercantilism that dominated Peru’s social and economic system for many years.

De Soto concludes by presenting several concrete solutions to solve some of Peru’s development problems. Most importantly, he emphasizes the need to make a peaceful transition out of mercantilism by transforming the legal system to reflect the new reality of an informal Peru. He argues that the transformation of many structures is already being done by the informals and that the government must simply adjust the law to ensure an orderly transformation. De Soto also believes that simplifying, decentralizing, and deregulating government bureaucracies would help integrate the country and give the people a greater sense of independence. This “other path,” he contends, is one that changes a country without violence. “The real remedy,” de Soto says, “is to recognize the property and labor of those whom formality excludes.”

Milton Esman and Norman Uphoff. 1984. *Local Organizations: Intermediaries in Rural Development*. Ithaca, NY: Cornell University Press.

Esman and Uphoff look at the performance of specific local organizations to determine what features and approaches are likely to be productive in establishing and sustaining grassroots institutions for development. This work extends their earlier comparative analysis of local organizations systems in Asia to all parts of the Third World. Esman and Uphoff refute the idea that development must be a "top-down process" by examining the possibilities for "development from below." The discussion centers around the extent to which these possibilities can be facilitated by government or private agencies, the impediments they face, and the means to take advantage of this potential.

Esman and Uphoff identify their school of thought as structural-reformist because it emphasizes the search for institutional and organizational changes that can cumulatively shift the balance of socioeconomic and political power. They set out to demonstrate the utility — as well as the limitations — of this approach through a literature review and the presentation of data and experience. In doing so, they use simple correlation and multiple regression analysis to examine the data and relationships found in a sample of 150 rural local organizations. These case studies were chosen from bibliographies, books, journals, and theses because they included sufficient data to permit systematic comparisons of local organizations. Recognizing that their discussion is often more exploratory than definitive, they devote a good portion of the book to a systematic analysis of the characteristics of local organizations and of what accounts for their varying contributions to rural development.

The authors categorize the explanations for these differences in contribution in terms of 1) the performance of certain functions, 2) the environments within which they operate, 3) the structure of the organization, 4) the kind and extent of participation, and 5) the overall performance itself. They found that the greatest attention should be given to the design and structure of local organizations since these factors can be significantly influenced by governments, voluntary agencies, and international donors. The challenge for these groups is to consider what is appropriate for specific rural groups in specific situations. As Esman and Uphoff assert in their conclusion, it is more difficult to form and sustain viable organizations among poorer and weaker rural publics, but such organizations have proven successful in a variety of environments. While they suggest further research be conducted to refine their findings, Esman and Uphoff identify policies, methods, and lines of action that seem advisable and others that should be avoided. Above all, they suggest that conceding a degree of self-determination to rural organizations is necessary for them to act in the genuine interest of their members.

Amitai Etzioni. 1993. *The Spirit of Community*. New York: Crown Publishers.

Amitai Etzioni's book is written partly as a manifesto on behalf of the Communitarian movement, which is concerned with the deterioration of American civil society. Its members claim that, since the sixties, "the notion of a shared community of public interest, which balances but does not replace the plurality of particular interests, has eroded" [p.14], manifested, for instance, by an erosion of private and public morality, high crime rates and declining family values.

According to the Communitarians, this erosion of American civic society is primarily due to an imbalance between rights and responsibilities, or what Etzioni calls an anticommunitarian paradox: "a strong sense of entitlement — that is, a demand that the community provide more services and strongly uphold rights — coupled with a rather weak sense of obligation to the local and national community" [p. 3]. As an example, he mentions that even though most Americans supported armed forces in Grenada, Panama, and in the Persian Gulf, many were reluctant to serve in the armed forces themselves. Etzioni argues that this imbalance has been exacerbated by American leaders in recent years, for instance via suggestions that economic growth, rather than taxes, could pay for government services. The concern is that this tendency to claim rights for oneself while leaving responsibilities to the government is destined to end up as burdens handed over to the next generation. The Communitarians are therefore "committed to creating a new moral, social, and public order based on a restoration of communities" [p. 2], to create social responsibility and laws that are based on connectedness which, in turn, will reduce contentiousness and enhance social cooperation.

Etzioni lays out the Communitarian approach and agenda in three parts. First, he discusses how it is possible to "reraise a moral voice by implanting it in renewed families, cultivating it in schools, and shoring it up in communities" [p.20]. He claims that for communities to provide the social foundation for a life that is more cognizant of commonly shared values they need "some major fixing." The second part concerns how the moral and civil order of communities can be saved from those who claim rights for themselves without assuming responsibility. The discussion focuses on where to redraw the line between claiming for oneself and supporting one's community. Finally, Etzioni takes a critical look at the political system. The analysis discusses how interest groups managed to capture an extensive part of national and local systems of governance, in addition to what needs to be done to energize the public interest, which, according to the author, represents the community at large.

In the main part of his discussion, Etzioni counterargues the libertarian argument according to which people having a *right* to do with their lives what they wish. He claims that an emphasis on rights pushes individuals to disregard the concern for one another and for the community, in that the right at issue is not weighed against the rights of those who are potentially hurt by the given act. In contrast, the author claims that if responsibilities are anchored in communities, it is possible to balance a pursuit of self-interest with a commitment to the community, without requiring altruism, self-sacrifice or curbing individual rights. Communities are needed to back up their individuals against encroachment by the state and to sustain morality by "drawing on the gentle prodding of kin, friends, neighbors, and other community members, rather than building on government controls or fear of authorities" [p. 15]. Because responsive communities reflect the diverse moral voices of their citizens, they define what is expected of people and educate their members to accept these values. This is why it is important to have communities that articulate the responsibilities that they expect their members to discharge.

Peter Evans. 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton, NJ: Princeton University Press.

Embedded Autonomy is an in-depth analysis of the state's task of promoting industrial growth. Evans focuses the empirical discussion on the growth of local information technology (IT) and examines why state involvement works in some cases but not in others. It draws primarily on the experiences of Brazil, India, and Korea during the 1970s and 1980s. Evans' underlying objective is to understand and sharpen general ideas about state structures and roles and state-society relations, and how these two shape possibilities for industrial transformation. Since state involvement is a given, the key question is not "how much," but "what kind".

In his research, Evans uses what he calls a comparative institutional approach which grounds assertions of institutional effects in the analysis of the actions of specific groups and organizations. He relies on key informant interviews with government officials and executives, and gathers secondary information from scholarly accounts in each of the comparator countries. In examining state structure and roles, his starting premise is that variations in involvement depend on variations in the states themselves. To characterize these variations, Evans constructs two historically grounded ideal types of states — predatory and developmental — and establishes a connection between their structural characteristics and developmental impact. He also looks at state involvement in terms of four roles: custodian, demiurge, midwifery, and husbandry. The first two represent variations of the conventional roles of regulator and producer, respectively; while the second pair focuses on the relation between state agencies and private entrepreneurial groups.

Evans finds that all three countries confirm his basic contention that midwifery (the state's promotion of new entrepreneurial groups) and husbandry (the support of these groups) is the best combination for growth in the IT sector. In terms of structure, however, he concludes that only Korea has the two fundamental characteristics — embeddedness and autonomy — that form the structural basis of successful state involvement in IT. Autonomy, he contends, results from a sense of commitment and corporate coherence partially due to selective recruitment and long-term career rewards. To be effective, these cohesive corporations must be embedded in a set of social ties that bind the state to society and provide institutional channels for the negotiation of goals and policies. Evans argues that it is the combination of these characteristics that separated Korea from India and Brazil. Because of the state's structure and the character of its ties to society, the state was able to adopt an effective combination of roles and devote itself to the tasks of midwifery and husbandry.

Peter Evans. 1996. “Government Action, Social Capital and Development: Reviewing the Evidence on Synergy”. *World Development* 24(6): 1119-1132.

This review article by Peter Evans is part of a special section printed in a *World Development* 1996 issue, under the heading “Government Action, Social Capital and Development: Creating Synergy across the Public-Private Divide”.[8] In this concluding article, Evans highlights some of the insights from the other five section articles that explore the possibility of “state-society synergy,” or that “active government and mobilized communities can enhance each other’s developmental efforts” [p. 1119]. The authors attempt to do so by bringing together two disparate theoretical traditions: 1) the social capital theories that emphasize the degree to which norms and trust and the interpersonal networks on which they are based constitute economic assets; and 2) the revisionist theories of the “East Asian Miracle” that highlight the central role of public institutions in capitalist development.

Each of the five articles combines original analytical frameworks with empirical evidence. First, Wai Fung Lam uses Taiwan’s irrigation system to argue that developmental success depends on the symbiotic relationship between self-organized local communities and highly bureacratized government agencies. Then Patrick Heller explores the positive cycle of interaction between a highly mobilized industrial workforce and a strongly engaged government in Kerala, India. Next, Elinor Ostrom uses two contrasting cases and the idea of “coproduction” to explore problems of state-society relations. She argues that such an effective synergy can by no means be taken for granted. The scope of the discussion is broadened by Jonathan Fox, who develops the idea of “political construction” of social capital by focusing on the rise of autonomous peasant organizations in authoritarian rural Mexico. Finally, Michael Burawoy uses a Russian case study to illustrate how trying to construct markets without simultaneously reconstructing public institutions can lead to “economic involution” instead of increased productivity and output.

In his concluding essay, Evans focuses on two general questions. First, “How are synergistic relations structured?” In his answer, Evans tries to reconcile two contrasting visions. The first one argues that synergy depends on *complementarity* In contrast, *embeddedness* challenges the distinction between public and private spheres and views trust and productive informal networks both as a property of civil society and as spanning the public-private divide. Evans concludes that “complementarity creates objective grounds on which cooperation between government and citizens can be built but that embeddedness generates the normative and interactional basis for realizing the potential joint gains” [p. 1036].

The second question is “How does the surrounding sociopolitical context constrain or facilitate the emergence of synergy?” First, Evans argues that even though a pre-existing social capital endowment matters in new synergistic relations, it is more important to “scale up” this current endowment to foster organizations that are sufficiently encompassing to pursue developmental goals in an effective manner. Second, he claims that “like social capital, [synergy] magnifies the socially valued output that can be derived from existing tangible assets but requires minimal material resources in its own creation” [p. 1130]. Finally, synergy is most easily nourished in societies where the social structures are egalitarian and the state bureacracies solid and coherent. Yet, synergy can also be fostered where circumstances are more adverse, typically found in Third World countries.

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8 The articles result from the efforts organized by the “Social Capital and Public Affairs Project” of the American Academy of Arts and Sciences, that was directed by Robert Putnam. The original presentation of the papers took place at a meeting of the Project’s Economic Development Working Group, May 5-6, 1995.

Francis Fukuyama. 1995. *Trust: The Social Values and the Creation of Prosperity*. New York: Free Press.

This book by Francis Fukuyama is both a sequel and a complement to another book of his, *The End of History and the Last Man* (1992).[9] In *Trust*, the author argues that it is the level of trust inherent in a given society that conditions its prosperity and degree of democracy, as well as its ability to compete. Building on other scholars' work, especially James Coleman's, Fukuyama uses the concept of trust as a measure of social capital and argues that it is accumulated through norms of reciprocity and successful cooperation in networks of civic engagement. Since he further argues that social capital rests on cultural roots, which he defines as ethical and moral habits, the book focuses on cultural factors, such as values and virtues.

The book has five parts. First, Fukuyama discusses why the cultural dimension of economic life is commonly missing in the current intellectual debate. Then he focuses on how to define culture, trust and social capital, emphasizing how trust is associated with industrial structure and the origin of those organizations that are essential to competitiveness and economic well-being. In Part II and III, the author supports his thesis with empirical evidence from detailed case studies, emphasizing "two major bridges to sociability": the family and nonkinship-based communities. In Part II, Fukuyama groups together four low-trust — or so-called "familistic" — societies (China, southern Italy, France, and Korea). His argument is that in these countries the family constitutes the basic unit of economic activity, which, in turn, explains why they all have had difficulty in creating large organizations. In contrast, in Part III, he poses that two high-trust societies (Japan and Germany) have been able to create large-scale firms that go beyond the family. Part IV concerns the United States, which Fukuyama believes used to be a high-trust society which now seems to be degenerating into a low-trust society. Finally, Part V contains some general conclusions, including the role economic life plays in broader human activity.

Based on the country case studies, Fukuyama's basic argument is that to obtain economic success it is necessary to establish large, democratic, and capitalistic organizations, especially corporations. However, in order for these institutions to work properly, their proper functioning must be ensured by certain premodern cultural habits. "Law, contract, and economic rationality provide a necessary but not sufficient basis for both the stability and prosperity of postindustrial societies; they must as well be leavened with reciprocity, moral obligation, duty toward community, and trust, which are based in habit rather than rational calculation" [p.11]. According to the author, "trust arises when a community shares a set of moral values in such a way as to create expectations of regular and honest behavior" [p.153]. The vitality of large institutions also depends on a healthy and dynamic civil society, which, in turn, "depends on people's habits, customs, and ethics — attributes that can be shaped only indirectly through conscious political action and must otherwise be nourished through an increased awareness and respect for culture" [p.5].

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[9] In "The End of History," Fukuyama's main thesis is that the collapse of the former Soviet Union and the emergence of a global consensus brought an end to the historical process, in that democracy and capitalism were left as the only viable systems in the advanced nations.

Diego Gambetta, Ed. 1988. *Trust: Making and Breaking Cooperative Relations*. Oxford: Blackwell.

In this book edited by Diego Gambetta, twelve distinguished scholars from a variety of disciplines explore the forces that govern cooperative relationships.[10] More specifically, all the authors focus, in varying combinations, on the "questions of what generates, maintains, substitutes, or collapses trusting relations", either from different theoretical perspectives or historical examples.[11]

The volume consists of three parts. In Part I, the essays examine the motives necessary to sustain trust; the conditions that favor the biological evolution of cooperation; the environmental conditions that foster trust; and trust examined within the respective frameworks of economic, political and sociological theory. The essays in Part II refer back to the issues raised in Part I by building on specific empirical cases. These studies examine i) how the Spaniards controlled their colonial outposts in eighteen century Naples by deliberately undermining the institutions of social trust; ii) the social forces that support cooperation in a pastoral Muslim society; iii) how the Italian Mafia both sustain trust among its membership, while undermining it among adversaries; iv) the informal contracts enforcement among African slum migrants; and, finally, v) a study on similar agreements between small French manufacturing firms and their subcontractors.

In Part III, Gambetta's essay wraps up the volume by discussing many of the themes from the preceding contributions. First, he claims that there is a degree of rational cooperation that should, but does not, exist. According to lessons learned from game theory, even if cooperative behavior will benefit every individual involved, cooperation may still encounter obstacles. Despite adequate motives for cooperation, "people still need to know about each other's motives and to trust each other, or at least the effectiveness of their motives" [p. 216]. Second, trust is defined as "a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both *before* he can monitor such action (or independently of his capacity ever to be able to monitor it) and in a context in which it affects *his own* action" [p.217]. Gambetta argues that cooperation often demands a certain level of trust, depending on "the force of the mechanisms that govern our cooperative decisions in general and on the social arrangements in which those decisions are made" [p. 220]. If there is complete *dis*trust, cooperation will fail among free agents, which might also be the case if there is only unilateral trust. Yet, Gambetta claims that trust is not a *prerequisite* for cooperation. Coercion, for instance, can ensure cooperation as well. Coercion is not an adequate alternative to trust, though, in that "it limits the extent to which we worry about, but does not increase trust" [p. 220]. It further introduces an asymmetry which eliminates mutual trust and instead promotes power and resentment.

Finally, Gambetta argues that there are reasons to "trust trust and to distrust distrust". First, trust is not depleted through use; on the contrary, it may increase through use. The trust we express in a relationship equals both a belief in and an encouragement to commitment. Second, "if behavior spreads through learning and imitation, the sustained distrust can only lead to further distrust" [p. 234].

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10 The twelve scholars are: Patrick Bateson, Partha Dasgupta, John Dunn, Diego Gambetta, Ernst Gellner, David Good, Keith Hart, Geoffrey Hawthorne, Edward Lorenz, Niklas Luhmann, Anthony Pagden, and Bernard Williams.

11 It was a seminar on the concept of trust, held at King's College, Cambridge during 1985-86, that led to this essay collection.

Mark Granovetter. 1985. “Economic Action and Social Structure: The Problem of Embeddedness”. *American Journal of Sociology* 91: 481-510.

The focus of Mark Granovetter’s paper is “the extent to which economic action is embedded in structures of social relations, in modern industrial society” [p.481]. According to his view of embeddedness, individuals do not act or make decisions isolated from a social context, nor do they necessarily concur to “a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations” [p. 487].

Granovetter contends that standard neo-classical theories provide an “undersocialized” explanation of such action, since they argue that rational, self-interested behavior is only marginally affected by social relations. His critique is also aimed at reformist economists, especially supporters of the “new institutional economics,” who, he claims, attempt to re-integrate social structures into economics in an “over-socialized” manner. Since they assume that behavioral patterns are being internalized, ongoing social relations have only minimal effects on behavior. Granovetter therefore argues that paradoxically both schools of thought are very similar in their neglect of ongoing structures of social relations. More specifically, both theoretical approaches fail to recognize the significance of concrete personal relations and networks of relations — or the embeddedness of economic transactions in social relations — in generating trust, in constituting expectations, and in establishing and enforcing norms.

The argument is substantiated by a theoretical elaboration of the concept of embeddedness, focusing on how personal relationships and networks of such connections generate trust and discourage malfeasance in economic life. He claims that since there is a general preference to conduct transactions with individuals with an established reputation, few would actually solely rely on institutional arrangements to guard against trouble. “Departing from pure economic motives, continuing economic relations often become overlaid with social content that carries strong expectations of trust and abstention from opportunism” [p. 490]. As an example, the author refers to the diamond exchange, where trading of valuable diamonds are sealed by a handshake. He argues that “this transaction is possible in part because it is not atomized from other transactions but embedded in a close-knit community of diamond merchants who monitor one another’s behavior closely” [p. 492].

Granovetter then illustrates the value of embeddedness by challenging an argument by Oliver Williamson, a prominent scholar of the “new institutional economics”,[12] who asked “under what circumstances economic functions are performed within the boundaries of hierarchical firms rather than by market processes that cross these boundaries” [p. 493]. Williamson argues that it is the organizational form of hierarchically integrated firms that explains the inhibition of opportunism or malfeasance in economic life along with the general existence of cooperation and order in economic transactions. Granovetter opposes by claiming that both order and disorder, honesty and malfeasance have more to do with “the nature of personal relations and networks of relations between and within firms” than they do with organizational form [p. 502]. For instance, many firms, regardless of size, are connected by interlocking directorates to ensure that relationships among top executives are numerous and densely knit.

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[12] Mark Granovetter critiques the argument that Williamson put forward in *Markets and Hierarchies* (1975).

Christiaan Grootaert. 1997. "Social Capital: The Missing Link?" in *Expanding the Measure of Wealth: Indicators of Environmentally Sustainable Development*. Environmentally Sustainable Development Studies and Monographs Series No. 7. Washington, DC: The World Bank.

Defining sustainable development has traditionally involved the measure of natural, physical and human capital. However, the way in which economic actors interact and organize themselves to generate growth and development has generally been overlooked. Grootaert contends that a fourth type of capital – social capital – could account for this "missing link". While its relevance is widely accepted, he addresses the fact that there is no consensus regarding the specific aspects of interaction and organization that should be labeled "social capital", or even if they merit the term "capital". Grootaert also discusses the issue of measuring social capital and empirically determining its contribution to economic growth and development.

In discussing the concept of social capital, Grootaert describes several cases which exemplify different aspects of social capital and their corresponding contribution to economic growth. He then provides a brief synopsis of the various conceptual frameworks in which social capital has been examined at both the micro and macro level. Looking at the ways that economic actors interact and organize themselves, Grootaert states that "associations and institutions provide an informal framework to organize information sharing, coordination of activities, and collective action decision making" [p. 79]. Some of the key aspects of these roles include building trust by creating opportunities for repeated interaction among individuals and maximizing the utility of a group by ensuring equity among it's members. He acknowledges, however, that social capital – like the other forms – has limited value if not combined with other forms of capital.

Grootaert shows that social capital is both an input and an output of the development process. Because by definition social capital requires a form of cooperation among individuals, it is a public good. It also requires resources and has associated production costs. The difficulty, however, is in measuring social capital and its impact. Due to a plethora of definitions, establishing a list of indicators is not an easy task. Grootaert states that the conceptual framework from which to develop a set of indicators that can measure linkages between policy and outcome variables is better developed for the narrower definitions of social capital that have a microinstitutional focus. He acknowledges that in order to understand the full scope of social capital, measurement must occur at both levels. Grootaert then puts forth several examples of empirical research that describes the direct and indirect ways social capital has contributed to economic growth and development. Some of these include the role of professional associations in solving problems, links between civil society and government that affect government programs, the importance of community groups in handling forest management issues, and the impact of rural economic organizations in enhancing access to the market.

Albert Hirschman. 1984. *Getting Ahead Collectively: Grassroots Organizations in Latin America*. New York: Pergamon Press.

Getting Ahead Collectively relates Albert Hirschman's experience visiting approximately 45 grassroots projects in six Latin American countries. In 1983 Hirschman spent nearly 4 months examining these private and collective attempts of people to improve their economic condition. Hirshman presents these efforts in a series of case studies with particular attention to common features and comparative patterns. Although he first makes several observations related to existing notions from his previous work on linkages and developmental sequences, he also looks at general themes less derivative of these earlier conclusions. Primarily, and without specifically using the term "social capital", he examines how these collective efforts typically arise. Hirschman also addresses the importance of the intermediate organizations that have emerged throughout Latin America, and concludes with speculations on the social and political effects of such a dense network of grassroots development efforts.

Hirschman approaches the question of how these collective endeavors emerge in two parts. The first presents several cases where collective action is provoked by some common (usually adverse) experience to which a group of people is subjected. The second, which is given much greater attention, focuses on understanding the conditions under which people take action when no such outside aggression is present. Hirschman does not account for these situations systematically; however, he does observe that most of the principal participants have histories of involvement in more "radical" collective action activities that did not achieve their objective. Later, this "social energy" becomes active again but transforms itself to achieve a new purpose. Hirshman refers to this "renewal" as the Principle of Conservation and Mutation of Social Energy and dedicates a significant portion of the book to exemplify the many instances throughout Latin America where this dynamic applies.

From these case studies, Hirshman adresses the social and political aspects of collective efforts. He states that while a dense network of organizations and activities are bound to change the traditional character of Latin American society in several ways, most are not very well understood. He does assert, however, that social relations typically become "more caring and less private". Hirshman found that participants of grassroots development activities see value in the work itself, without regard to macroeconomic indicators such as the gross national product and the rate of growth. Politically, they also believe that too much importance is attributed to large scale political changes. They believe that in order for fundamental changes to occur in the political condition, social, cultural, and personal relationships must first be transformed.

Robert Klitgaard and Johannes Fedderke. 1995. “Social Integration and Disintegration: An Exploratory Analysis of Cross-Country Data”. *World Development* 23(3): 357-69.

The paper by Robert Klitgaard and Johannes Fedderke explores a range of imperfect indicators of social disintegration based on cross-country data. Despite the general interest in the topic, the authors claim that disintegration is a “vague and obviously problematic concept,” which seems to encompass dimensions such as conflict, instability, and political breakdowns. Consequently, their objective is to pursue a better understanding of the concept by focussing on how different measures of various disintegration dimensions behave and interrelate. In their analysis the authors also include answers from large-scale surveys dealing with citizen’s “satisfaction with life” and “happiness.” The paper emphasizes both lessons learned and the conceptual and statistical shortcomings of the data analysis. Overall, according to the authors themselves, their analysis offers mostly a pretheoretical examination of what both social integration and disintegration mean.

The authors base their analysis on secondary data which cover the timespan from 1960-85 and up to 116 countries. Since the variables are seemingly relevant to social integration and disintegration, they are used as imperfect indicators of regime instability, violence, political and civil rights, corruption, economic inequality, family stability, and economic prosperity. Yet, there is a strong emphasis on the many limitations of the available statistics, especially the lack of available or updated data for some countries. Another point is that the majority of the variables are proxies for attributes that are difficult to define. For instance, political assassinations, coups, and riots are proxies of social disintegration. Due to the lack of a convincing model of social disintegration, the authors use an “exploratory data analysis,” in which a variety of relationships is examined, often via graphic techniques, and hypotheses are suggested rather than tested.

Several tentative conclusions are drawn from the analysis. The first group of variables seems connected to “the basic stability of social institutions and the provision of fundamental political and civil liberties” [p. 366]. This group also seems to correlate with other social problems, such as homicide rates, in addition to chronic problems of underdevelopment, such as low levels of GDP, investment, and education. In contrast, the second group contains variables of disorder that are not regime-threatening, like riots, political assassinations, and strikes. This group is correlated with political fractionalization, low levels of citizen satisfaction, and low voter turnout. However, it is neither related to the first group nor to levels of GDP or political rights.

The next important point is that neither factor is strongly related to many of the social disintegration aspects that concern the Western industrialized nations the most, for instance rates of suicide, divorce, and imprisonment. The authors therefore conclude that developing and industrialized countries seem to be concerned about different types of social disintegration. The analysis also indicate a correlation between growth levels and social integration: countries where lower growth levels exhibited more social disintegration on almost every indicator. The final point is that the limitations of their cross-country statistical study makes it difficult to appraise levels, patterns, and trends for a concept as vague as “social integration and disintegration.” A similar analysis should therefore be substantiated, for instance, by historical accounts.

Stephen Knack and Philip Keefer. 1997. "Does Social Capital have an Economic Payoff? A Cross-Country Investigation". Quarterly Journal of Economics 112(4): 1251-88.

In this paper, Stephen Knack and Philip Keefer use empirical data on trust and civic norms to argue that social capital is related to measurable economic performance. The authors initiate their discussion by supporting the notion that trust, cooperative norms, and group associations each are included in all social capital definitions and that all three components are essential to well-functioning societies and their economic progress. Their contribution to the social capital discussion is an examination of three issues related to social capital and economic performance. First they explore the connections between interpersonal trust, civic norms, and economic performance, in addition to relevant links, including policy, through which these dimensions of social capital may have economic effects. Then the authors look at how the hypotheses of Putnam [1993] and Olson [1982] conflict in regards to the relationship between associational activity and growth. Finally, the examination looks at which factors that determine trust and norms of civic cooperation.

The analysis is based on data from the World Values Surveys for a sample of 29 market economies. The two primary indicators used were trust and civic norms. More specifically, the former is the percentage of respondents in each of the survey countries that replied "most people can be trusted" to the question: "Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?" The strength of civic norms is rated from the respondents' answers on the degree to which they would justify five different behaviors related to various forms of cheating. Trust is used as the primary social capital indicator in the empirical tests, due to a more direct relevance to economic performance, and because the indicator used for civic norms shows little variation across countries. Throughout the study the authors controlled for other standard determinants of economic performance, including education rates and starting levels of per capita income.

Based on their analysis, the two authors draw three major conclusions from these results. First, the findings provide the strongest current evidence that trust and civic cooperation strengthen economic performance. However, they contradict Putnam's [1993] findings from Italian regions by suggesting that there is no correlation between associational activity and economic performance. Since their findings also illustrate that trust and civic norms have a strong influence on economic performance, they pose that if a decline in America's social capital affects its growth negatively, it is more likely caused by an erosion of trust and civic norms than by a decline in associational life as suggested by Putnam. Finally, the authors conclude that trust and civic cooperation are stronger in countries a) with property and contract rights effectively protected by formal institutions; b) with higher and more equal incomes; and c) and with populations less polarized by class, education and ethnicity.

The paper also discusses the *policy implications* of the findings. It seems that interpersonal trust plays a larger role in facilitating economic activity in places with less well-developed financial sectors, insecure property rights, and unreliable contract enforceability. Consequently, it is more important to invest in institutional reforms emphasizing better formal mechanisms for access to credit and dependable contract enforcement where trust is low and unlikely to improve rapidly than where trust is higher. In addition, since group memberships are not directly related to economic activity, and unrelated to trust, it may be counterproductive to promote horizontal associations via an encouragement of group formation and participation. Finally, the findings support the case for reducing income disparities in developing countries, acknowledging the difficulties in implementing such policies.

Deepa Narayan and Lant Pritchett. 1996. "Cents and Sociability: Household Income and Social Capital in Rural Tanzania". Policy Research Working Paper 1796, Washington, DC: The World Bank.

In this research paper, Deepa Narayan and Lant Pritchett describe their empirical research in which they use a large scale survey and an econometric analysis of the data to "measure the degree and characteristics of associational activity, as a proxy for social capital, and trust among households in rural Tanzania" [p. 34]. The main emphasis is on the links between individuals in voluntary associations, in addition to social norms, with a potential of excluding other dimensions of social capital.

In the introduction, the authors establish the social capital parameters for their research to distinguish it from previous literature. The introduction also explores whether social capital qualifies as capital. This discussion centers around five different mechanisms by other scholars which propose how social capital affects outcomes. All share the notion that an increase in social capital may lead to better outcomes via a facilitation of greater cooperation. Then follows an explanation on how and why the authors created data on social capital via a substantial household survey in rural Tanzania in which households were interviewed about their social connections and attitudes. The *Social Capital and Poverty Survey* was conducted as part of a larger participatory assessment exercise. Households were chosen randomly within clusters. However, the sampling clusters themselves corresponded to the ones used in the 1993 *Human Resource Development Survey* so they could be matched village by village. Based on this data, which emphasizes frequency of association or group membership and the characteristics of these groups, the authors created an index of the village associational life, which they used as a proxy for social capital. Trust, along with attitudes toward the existence and role of social and civic norms, was analyzed as well. Next, these data were paired with data on incomes to examine the effect of a village's social capital on household incomes in that village. As a final step, the two sets of data were used to analyze various proximate channels trough which social capital seems to operate.

The first important finding is that social capital qualifies as capital, in that it raises income. The concept is also proven to be social, since the data show that household outcomes depends on not just household-level, but mostly on *village-level* social capital. Another important observation is the large magnitude of the effect that social capital has on incomes. According to the data, a one standard deviation increase in village social capital raises the proxy for income, household expenditures per person, by at least 20 to 30 percent. In comparison, the size of the impact is equivalent to a similar increase in non-farming assets, but is three times larger than the impact from a similar increase in the level of education. The data also help identify examples of proximate channels through which social capital influences incomes, for instance better publicly provided services, increased use of modern agricultural inputs, greater community activity, and broader use of credit in agriculture.

Douglass C. North. 1990. *Institutions, Institutional Change, and Economic Performance*. New York: Cambridge University Press.

In this book, Douglass North's primary objective is to explain vastly different performances in economies over long periods of time. He claims that institutional change is the key to understanding historical change, in that it shapes the way societies evolve over time. He also states that it is institutions, combined with the classic constraints of economic theory, that determine the opportunities in a society. One of his main objectives is therefore to provide an analytical framework to integrate institutional analysis into economic history and theory. The primary focus is on human cooperation, specifically the kind that allows economies to capture the gains from trade. It is argued that "the evolution of institutions that create a hospitable environment for cooperative solutions to complex exchange provides for economic growth" [p. vii]. Since not all human cooperation is socially productive, both institutional frameworks which increase or decrease efficiency are analyzed. A majority of the analysis concentrates on the exact specifications of institutions, how they differ from organizations, and how they affect transaction and production costs.

North's book is in three parts. In Part I, the author explores the nature of institutions and the consequences of institutions for economic and societal performance. The rest of the book concentrates on the way institutional constraints develop over time and thereby determine the performance characteristics of economies. Part II contains his theory of institutional change which provides a framework for economic (and other) history. The section also gives an explanation of how the past influences the present and future, how a choice set at a moment of time is affected by incremental institutional change, and the nature of path dependence. In Part III, North outlines the primary objective of the study, which is to reach an understanding of the differential performance of economies through time. Finally, North explains what happens when institutional analysis is systematically integrated into economic theory via some historical examples, including financial markets and law merchants.

North's main claim is that his analysis provides a new understanding of historical change, in that it is institutional change that shapes the way societies evolve through time. He therefore argues that this finding suggests a reexamination of much general social science and economic theory in order to integrate a stronger focus on the role of institutions. According to evidence from Part I, institutional frameworks indeed do play a major role in a given economy's performance. Yet, it is also emphasized that an economy consists of a mixed set of institutions, where some have a positive impact on efficiency, others a negative one. Nevertheless, various country case studies used in the book prove that the institutional framework is the vital key to the relative success of economies, both across sectors as well as through time. North also speculates about the cause of efficient institutions. He claims that, according to his analysis, both informal constraints and transaction costs inherent to the political processes appear to have a pervasive influence on the institutional structure. However, he emphasizes that in order to reach a better understanding of the nature of this influence, more research is needed about culturally derived norms of behavior and how they interact with formal rules.

Mancur Olson. 1982. *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*. New Haven: Yale University Press.

Mancur Olson proposes an interdisciplinary extension of traditional economic theory to better understand the collective mechanisms which determine historically declining rates of economic growth and stagflation.[13] Olson provides evidence for this approach from different periods of history and parts of the world, ranging from the British class structure and the Indian caste system to unequal power and income distributions in many developing countries.

Olson builds his argument on his earlier analyses of the logic of collective action, relying particularly on the following paradox of group behavior: if large groups are composed of rational individuals, they will not always act in that group's interest.[14] He argues that "other things being equal, the larger the number of individuals or firms that would benefit from a collective good, the smaller the share of the gains from action in the group interest that will accrue to the individual or the firm that undertakes the action " [p.31]. Thus, the likelihood of smaller groups engaging in collective action is higher than for larger ones, and groups with access to specific enforcement mechanisms, called "selective incentives" by Olson, are more likely to act collectively to acquire public goods than those without such access.

The thesis of the book rests on three propositions. First, stable societies that have not been disturbed by invasion, revolution, or significant boundary changes, have a tendency to gradually accumulate rent-seeking collusive organizations. Second, these "distributional coalitions" generally tend to reduce efficiency, aggregate income and make politics more divisive. Finally, the fact that these coalitions are slower to make decisions than individuals or firms, slows down adjustment to change and reduce the society's economic growth rate. In other words, if a society enjoys political stability for a longer period of time, it is more likely to develop strong special-interest groups that in turn make the society less efficient from an economic point of view. As a corollary of these three propositions, those groups that are more successful at managing their collective action processes can increase the aggregate welfare of the group but contribute to decreasing societal welfare, pointing to a possibly detrimental feature of successful collective organization.

Olson suggests that his theory explains the rapid postwar growth of West Germany and Japan, Britain's slow growth and so-called ungovernability in the years preceding the publication of his book, along with that nation's rapid growth in earlier times.[15] He also argues that involuntary unemployment and stagflation are results of cartelistic actions of distributional coalitions, either composed of workers or of firms.

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13 Stagflation is inflation combined with unusual levels of unemployment.

14 Olson elaborates on this paradox in an earlier book, *The Logic of Collective Action.*

15 Olson uses the term *ungovernability* when he talks about historical cases in which it seems that governments in some countries did not govern or control their societies as well as they had in the past [p. 8].

Elinor Ostrom. 1990. *Governing the Commons: The Evolution of Institutions for Collective Action.* New York: Cambridge University Press.

Author Elinor Ostrom examines whether and how the exploration of common pool resources can be organized in a way that avoids both excessive consumption and administrative cost. Ostrom argues against those economists that view cases involving common resources as exploitable when the problem of over consumption is solved by privatization or enforcement imposed by an outside source. She believes that other solutions exist and that "stable institutions of self-government can be created if certain problems of supply, credibility, and monitoring are solved" [p. xi]. She presents this book as an effort to 1) critique the foundations of policy analysis as applied to many natural resources; 2) present empirical examples of successful and unsuccessful efforts to govern and manage such resources; and 3) begin efforts to develop better intellectual tools to understand the capabilities and limitations of self-governing situations for regulating many types of resources.

Ostrom first describes three models most frequently used to provide a foundation for recommending state or market solutions. The first of these is known as "the tragedy of the commons", which refers to the degradation of the environment that can occur when many individuals use a scarce resource in common. The second is known as "the prisoner's dilemma game" and is characterized by each player selecting his or her most favorable individual strategy. The third model is "the logic of collective action" and focuses on getting individuals to pursue their joint benefits rather than their individual welfare. These models, however, led to the assumption that individuals will not cooperate so as to achieve the collective benefits. They were seen as being trapped in static situations without the ability to change the rules affecting their incentives. To illustrate the diversity of solutions that go beyond states and markets, Ostrom then poses theoretical and empirical alternatives to these models. Some of these solutions include privatization or centralizing control over the resource. These recommendations, however, are typically presented as "the only way" to solve problems relating to the use of common property. Ostrom believes the contrary is true and that the best alternative is one that allows the participants to commit to a cooperative strategy that they themselves design. With case study examples derived from Switzerland, Japan, the Philippines, Spain, and Turkey, she uses an institutional mode of analysis to explain how communities of individuals create different ways of governing the commons.

Basing her conclusions on comparisons of success and failure in self-government, Ostrom describes some fundamental characteristics of successful common-pool management schemes. Among them are clear boundaries and memberships, congruent rules, monitoring, graduated sanctions, conflict resolution mechanisms, and recognized rights to organize. She stresses the importance of officials utilizing an analytical framework which takes into account the complex variables involved in solving CPR problems. Rather than impose uniform rules throughout a jurisdiction, Ostrom suggests that applying specialized rules to localities within a jurisdiction would be more effective and less costly in terms of monitoring and enforement.

Robert D. Putnam. 1993. "The Prosperous Community — Social Capital and Public Life". *American Prospect* (13): 35-42.

In this survey essay, Robert Putnam identifies social capital as "features of social organization, such as networks, norms, and trust, that facilitate coordination and cooperation for mutual benefit" [p. 36]. He claims that social capital, combined with human and physical capital, spurs economic growth, but that social capital is unique in that it also "enhances the benefits of investments in physical and human capital" [p. 36]. In other words, the *efficiency* of this combination process itself is reinforced.

An important focus of the paper is how social capital may help surmount the dilemmas of collective action. First, Putnam illustrates the importance of social capital by discussing his own empirical research. An experiment with regional governance in Italy initiated in 1970 provided him with an opportunity to study the process of institutional development. His research showed how some regions have strong traditions of civic engagement, such as voter turnout and active community organizations, whereas other regions were 'uncivic' with a meager engagement in social and cultural associations. Putnam argues that lessons learned from this research are relevant for other societies grappling with how to achieve good governance where civil society is weak and economic difficulties predominate. Then he elaborates on the positive impact of social capital on economic development by referring to other scholars' work. The risks of destroying social capital are briefly discussed. The rest of the essay concentrates on social capital in the context of the United States. Finally, he points to a need of exploring the negative effects of social capital.

In Italy, Putnam found that differences in regional institutional performance could be traced in their different patterns of civic engagement, where the regions with strong such engagements were rooted in a civic heritage from the early Middle Ages. Fundamental to these traditions are rich networks of organized reciprocity and civil solidarity, embodied in guilds, religious fraternities, and neighborhood associations. According to Putnam, the historical record suggests that the economic welfare of these communities stem from being civic; not visa versa. He therefore concludes that "the social capital embodied in norms and networks of civic engagement seems to be a precondition for economic development as well as for effective government" [p.37]. Then Putnam outlines three findings in which social capital underpins good government and economic progress. First, trust has a positive impact on social life, illustrated by how networks of civic engagement foster solid norms of generalized reciprocity. Second, civic networks also further coordination and communication and magnify information about the trustworthiness of other members. Third, since past collaboration successes are embodied in these networks, they can serve as 'cultural templates' for future collaboration.

In his discussion of the United States, Putnam claims that the country's current troubled political climate is caused by an erosion of social trust and community engagement over the last decades. He states that wise policy can encourage social capital formation, and social capital can, in return, improve the effectiveness of political action. In addition, investments in physical, financial, human, and social capital should be viewed as complementary, not competing alternatives. Putnam then emphasizes the need to weigh costs as well as benefits related to social capital in future research. He also suggests that social capital can help bridge outdated ideological divides and thereby help strengthen the consensus on the importance of social empowerment. His final statement is that "the social capital approach promises to uncover new ways of combining private social infrastructure with public policies that work, and, in turn, of using wise public policies to revitalize America's stocks of social capital" [42].

Richard Rose. 1995. “Russia as an Hour Glass Society: A Constitution without Citizens”. *East European Constitutional Review* 4(3): 34-42.

In this article, author Richard Rose examines the relations of Russian citizens vis-à-vis their government. Writing in the summer of 1995, he uses the results of a nationwide survey to draw conclusions about the voting behavior of Russians in the upcoming December 1995 parliamentary election. Throughout the article, Rose illustrates the extent to which Russian citizens rely on the strength of informal networks to survive the hardships of transformation. These networks form the base of what he terms the “hour-glass society.” The rich political and social life of the elites form the upper portion, and a narrow middle consisting of very few intermediary social institutions serves as a weak — if not non-existent — link between the two. Ultimately, Rose believes that the way in which Russians vote will exemplify their persistent desire to remain as distant from the top as possible.

Over 1,940 persons participated in the New Russia Barometer (NRB IV), the 4th in an annual series of surveys that monitor mass response to the transformation of post-communist societies. During these face-to-face interviews, participants are asked about their expectations of fair treatment, how they obtain food and other goods when they are out of work, how they resolve disputes, and to what extent they trust various officials of the state. As evidenced by the results, Russians do not perceive their everyday concerns as being integrated with the state. In fact, results show that Russians have a high degree of *trust* in their immediate social network, but a high degree of *distrust* in the institutions of government and civil society (over 70% in many cases). Russians prefer to insulate themselves from the interference of the state by relying on the trust and cooperation inherent in these dense horizontal networks of friends and relatives.

While many Westerners assume the best way to deal with Russia’s social problems is to promote social protection through the state, the NRB IV found that the Russian Federation is unable to provide such support. As the oft-repeated Russian proverb states, it is “better to have 100 friends than 100 rubles.” Rose maintains that this saying will hold true and the largest group of electors in the next election will be those who do not vote and do not want the state to interfere with their way of “getting by in the bottom half of an hour-glass society [p. 42].

Ismail Serageldin. 1996. “Sustainability as Opportunity and the Problem of Social Capital”. *Brown Journal of World Affairs* 3(2): 187-203.

Ismail Serageldin’s paper outlines conceptual work in progress on how to define the ‘sustainable development’ concept more precisely to make it easier to operationalize. The new approach, ‘sustainability as opportunity’, suggests a working definition that “sustainability is to leave future generations as many opportunities as, if not more than, we have had ourselves” [p.188]. Social capital is a component in this work and is referred to as “the institutional and cultural basis for a society to function” [p. 188]. In response to the current vague state of the concept, the author poses ways to increase efforts to reach a better understanding of social capital to make it more applicable and prominent in our perceptions of sustainability.

According to Serageldin, sustainability as opportunity equals an expansion of the capital stock, which translates into "providing future generations as much if not more total capital per capita than we had ourselves” [p. 188]. He draws on some ongoing work at the World Bank concerning a first ever effort to quantify different kinds of capital, which, thus, measure *wealth* instead of only income, for 192 countries. The conventional definition of capital (only man-made capital) is expanded to also include natural, human, and social capital, as these types are considered equally important to individual and collective well-being. The sustainability level is defined based on the amount and combination of these four. Yet, the *composition* of the total amount of capital for future use may differ from the one of the present capital stock, since the four kinds of capital can be partially substitutes and partially complements. Currently, the limits to the degree of substitution is unclear, except that all four kinds of capital have to be included.

So far, social capital is not calculated separately, but instead combined with human capital as part of the total human resource numbers, due to the difficulties of defining and measuring the concept properly. The World Bank is currently trying to develop a way to measure *human* capital, and thereby be able to treat social capital as a residual. Yet, the importance of the concept is recognized: “without a degree of common identification with the forms of governance and of cultural expression and social behavior that make a society more than the sum of collection of individuals it is impossible to imagine a functioning social order” [p. 196]. To exemplify, Serageldin refers to the works of Putnam, who suggests that strong civic communities, defined by voluntary horizontal associations are likely to promote good governance and socioeconomic development. He also points out that Putnam’s work still leaves the question of adequate measurement unanswered.

Among the primary findings is that sustainability defined as opportunity points to the importance of capital, and of looking at wealth in broader terms, not just income. Then analysis of stocks is needed in addition to flows, which is what past income measures have emphasized. According to initial results related to social capital, the numbers combining human and social capital appears to exceed both natural and man-made capital in wealth estimations. This supports the belief that investment in both types of capital is indeed comparatively cost effective. While discussing the current limitations of the social capital concept, Serageldin refers to the most prominent directions of current research on the topic, including work by Robert Putnam, Richard Rose, and Robert Klitgaard. Then he suggests that future research on social capital should focus on how to define, value, accumulate, and deplete social capital, while also examining how to measure both its investment level and its returns.

Joseph E. Stiglitz. 1996. "Some Lessons from the East Asian Miracle". *The World Bank Research Observer* 11(2): 151-77.

In this interpretive essay, Joseph Stiglitz seeks to identify the underlying policies and other factors behind the East Asian rapid economic growth. His key objective is to determine whether other developing countries can replicate these policies to obtain similar high growth rates. More specifically, Stiglitz aims at explaining 1) why savings rates were so high; 2) how it was possible to make efficient investments despite the rapid pace; 3) how the technology gap was reduced so quickly; and 4) how the East Asian countries managed to allocate the benefits of the rapid growth widely among the population. Since the eight concerned East Asian economies[16] are unique in their own right, the author concentrates on the common threads.

Stiglitz bases his essay on case studies, econometric data, and economic theory. First he uses different metaphors to describe the process of economic growth. Then he discusses how the East Asian governments promoted and used markets, instead of replacing them. These government interventions are examined in four themes that concern industrial policies; cooperation and competition; growth with equality; and export-led growth.

Rather than a formula, Stiglitz argues that it was a nexus of policies, different from country to country, yet with common themes, that lead to East Asia's success. Among them, Stiglitz stresses the active government intervention in markets which lead to a strong government-private sector partnership. "By using, directing, and supplementing markets rather than replacing them, the private sector remained the center of economic activity in most of the East Asian countries" [p. 173]. When disagreements occurred between governments and the private sector, the latter was allowed freedom to carry on at the risk of its own capital. Government policies helped create an environment in which markets could thrive. Some of these policies promoted exports, education, and technology. To improve government-business cooperation, governments also introduced policies that enabled them to design programs that served the needs of the business community, created a favorable business climate, and encouraged the private sector to focus its resources in ways that contributed to high social returns. The quality of decisionmaking was enhanced by information sharing. In addition, the governments established incentives and an institutional infrastructure that on one hand ensured that markets could work more effectively, while also enhancing the efficiency and reducing the likelihood of corruption within the public sector.

The authors's final point is that the main factor behind East Asia's success might have been political rather than economic. "The recognition of institutional and individual fallibility gave rise to a flexibility and responsiveness that, in the end, must lie at the root of sustained success" [p. 174]. If other governments wish to replicate the East Asian success, Stiglitz poses that they are likely to be more successful in promoting growth if they use and help create markets, rather than replacing them.

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[16] The eight East Asian economies that generally are included in discussions about the "East Asian Miracle" are Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Singapore, Thailand, and Taiwan.

Judith Tendler. 1997. *Good Government in the Tropics*. Baltimore: Johns Hopkins University Press.

Judith Tendler's Good Government in the Tropics constructs an argument for thinking differently about public-sector reform and presents some examples of how to formulate advise by drawing on cases of good performance. Tendler believes that much of the current advise given ignores a substantial body of evidence about the conditions under which service organizations perform well. She develops her argument through a set of four cases, each of which constitutes a chapter of the book. While each case has its own body of literature and corresponding advise, the significance of the book lies in the findings that run across all cases.

The programs Tendler based her research on were carried out by a state government in Brazil whose performance rapidly improved in the mid-1980s. Each of the four cases involves a program in one of the following different sectors: 1) rural preventive health, 2) business extension and public procurement from small firms, 3) employment-creating public works construction, and 4) agricultural extension and small farmers. Because the cases look at good — rather than bad — performance, Tendler uses the existing literature on public-sector failures as the point of departure for her questions about success.

Some of Tendler's findings include the following:

1. Government workers in all cases demonstrated unusual dedication to their jobs;
2. The state government contributed in an unusual and sometimes inadvertent way;
3. Workers carried out a larger variety of tasks than usual and often voluntarily;
4. Greater discretion and responsibilities given to workers led to better performance rather than more rent-seeking behaviors; and,
5. A 3-way dynamic emerged with respect to issues of decentralization, local government, and participation of civic associations.

In her conclusion, she highlights the mixed nature of these successes, some of which were actually inadvertent. In many cases, managers or workers did not necessarily understand what they had done right. She purposely excluded leadership as a factor in her research, stating that outstanding leadership is "the ultimate in intentionality" and clouds the ability to understand the true nature of the success. Therefore, drawing attention to the achievements that governments are not noticing is a way of showing them what they are already capable of doing. "This", Tendler contends, "is how an edifice of good advice should be built."

Norman Uphoff. 1993. “Grassroots Organizations and NGOs in Rural Development: Opportunities with Diminishing States and Expanding Markets”. *World Development* 21(4): 607-622.

In this conceptual paper, Norman Uphoff conducts a systematic analysis of nongovernment organizations (NGOs) and grassroots organizations (GROs), primarily from rural settings. He examines their collective action possibilities and seeks to delineate for both types of organizations a non-residual place within an overall scheme of a country’s institutional capabilities. It is emphasized that these institutions and their potential role in rural development should be examined in a context with state and market institutions, as the mutual strengths and weaknesses of all three sectors are both complementary and interrelated.

The article consists of six sections. The introduction justifies the focus on NGOs and GROs and briefly mentions the various sections. The distinction criterias for GROs and NGOs are elaborated in sections 2 and 3. The primary distinction between the two is that GROs are defined in terms of levels, whereas NGOs are determined according to sectors. The intention behind the elaborated distinctions is to provide analytical instead of just descriptive classifications. In section 4, Uphoff distinguishes between institutions and organizations, terms which he claims tend to be used interchangeably. The focus of section 5 is on how grassroots organizations and NGOs can help accelerate rural development. The final section compares grassroots development efforts during a period where the role of the state is diminishing, while markets are expanding, however unevenly.

Uphoff’s main point is that GROs and NGOs deserve more attention as channels for development promotion, especially in rural areas. However, he also recognizes that they are limited, often flawed, and not necessarily superior to state or market alternatives. It is the symbiotic relationship between the three different sets of institutions that is important to further explore. “To revive and expand collective action will require public policies that capitalize on complementary relationships this third sector can have with state and market institutions, filling the gaps between the public and the private sectors and helping each of them become more effective [p.619].”

Uphoff then makes several points about the collective action institutions. First, they are likely to be influenced by changes in state and market, for instance, due to the volatile nature of their voluntary activities. Second, even though the state has penetrated and has often displaced, constrained or distorted traditional collective action institutions in the Third World, these informal institutions are currently being revitalized as both state and market fail to meet peoples’ expectations and needs. However, it is emphasized that it is not until state and market cannot deliver that collective action becomes the default vehicle for development. Finally, collective action is better at initiating than maintaining facilities, since the latter process depends on regular and repetitive actions that are better conducted by paid or for-profit institutions. As an example, Uphoff refers to the case of American rural electrification. This service used to be carried out primarily by cooperatives on a collective action basis, but was superseeded by private business or cooperatives altered into private enterprises. Uphoff states that self-help organizations, therefore, are of a more variable and opportunistic nature than state and market. “To revive and expand collective action,” he concludes, “will require public policies that capitalize on complementary relationships this third sector can have with state and market institutions, filing in gaps between the public and the private sectors and helping each of them become more effective” [p.619].

Michael Woolcock. 1998. "Social Capital and Economic Development: Towards a Theoretical Synthesis and Policy Framework". *Theory and Society* 27: 151-208.

In this article, Michael Woolcock provides a synthesis and review of social capital literature from an economic sociologist's point of view. He focuses on two distinct fields within economic development, claiming that they contain the most extensive empirical research and coherent theoretical advances related to social capital. The first, *ethnic entrepreneurship*, emphasizes the micro level, as it refers to studies on how new immigrants entering into a given community — such as the Chinese in San Fransisco — gain access to financial and personal support from fellow immigrants to launch a new life. The second, *comparative institutionalism,* involves the macro level and concerns the degree of dynamic alliances based on personal, professional social ties between and within state bureaucracies and civil society (both firms and civic groups).[17] Finally, he combines these different kinds of social capital in a framework intended to incorporate the concept into both economic development theory and policy.

After a brief intellectual history of social capital, Woolcock outlines a framework based on the reviewed literature. He argues that two distinct kinds of social capital can be extracted from both ethnic entrepreneurship (micro level) and comparative institutionalism (macro level). At the micro level, *embeddedness* refers to social ties that are integrated within a community, while at the macro level it signifies the synergies stemming from relations between state and society. In contrast, *autonomy* at the micro level stands for networks between different communities, for instance when different community groups build social ties via their participation in broader associations. At the macro level autonomy refers to institutional capacity and credibility. India is cited as an example of a high degree of autonomy; despite a well-educated civil service, ties to key business leaders are generally limited.

Woolcock derives four main lessons from his review and conceptual framework. First, the strongest theoretical definition of social capital seems to be one which focuses on how various types of social relationships impact institutional outcomes. Second, social capital definitions should emphasize its sources rather than its consequences: "'consequences' may be one indicator of the types and combinations of social capital that are present, but they are not to be confused with social capital itself" [p. 185]. Third, in order to sustain economic life a mix of different types of social capital is needed. This argument also counterargues that state-society relations are inherently a zero-sum game. For instance, "whether states perform well or poor is an empirical issue, and which of these outcomes prevails turns on the coherence, credibility, and capacity of the state, the nature and extent of its engagement with civil society, and importantly, the organizational features of civil society itself" [p. 186]. Finally, Woolcock illustrates that it is specific combinations of the different types of social capital at the micro and macro level that determines whether the calculus of costs and benefits favor developmental or destructive purposes. In addition, this calculus changes over time as development itself alters the underlying conditions that shape the prevailing combinations of social relationships. "This successful interaction within and between bottom-up and top-down initiatives is the cumulative product of an on-going process that entails "getting the social relations right"." [p.186]. He concludes that "social capital is thus a crucial, but enigmatic, component of the development equation, precisely because it can enhance, maintain, or destroy physical and human capital" [p. 186].

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[17] Michael Woolcock, working paper submitted to International Conference on Social Capital--Bridging Disciplines, Policies and Communities, at Michigan State University, April 20-22,1998.

The World Bank. 1993. *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press.

In this report, which summarizes a comparative study of public policy and economic growth in East Asia,[18] the World Bank advocates government intervention in economic development. At the time when the report was released, this viewpoint indicated a major reversal away from the Bank's longstanding neoclassical way of thinking. The study was undertaken in response to a growing general desire to understand which policies spurred the rapid growth in East Asia during the period of 1965-1990, and how, especially emphasizing the complex relationships between government, the financial market and the private sector.[19] The objective was to analyze the experience of the eight East Asian economies to assist policymakers globally in comprehending the range of policies that contribute to rapid growth.

In the book, economic models are used to account for growth, and explanations for growth are presented in a way that enables the relationship between policy and growth to be explored. The World Bank team argues that since the East Asian economies used different combinations of policies, it seems that for economic policies to be effective, they must be country-specific. Yet, the study also identify common threads behind the growth record, especially the central role of the East Asian governments and their encouragement of strong government-private sector cooperation. First, East Asian leaders established the principle of shared growth, in which all groups would benefit from an expanding economy. This political intent was backed up by special programs, such as land-reform or public housing programs. Then governments created an enabling business environment, with a legal and regulatory structure that supported private investment. A mix of common, market-friendly economic policies resulted in macroeconomic stability and an exceptional accumulation of human and physical capital. This combined capital, in turn, was allocated into highly productive investments and acquired and mastered technology.

To tackle coordination problems, country leaders created institutions run by competent technocrats to enhance efficiency and mechanisms to reassure competing groups that all would benefit from growth. New forums, or deliberation councils, provided a transparent environment, in which private sector groups helped shape and implement the government policies relevant to their interests. These councils also facilitated information exchanges between the private sector and government, among firms, and between management and labor. One by-product of these combined efforts was a reduction of the private resources devoted to wasteful rent-seeking activities, which made more available for productive endeavors. Finally, the report emphasizes that noneconomic factors, such as culture, politics, and history are other important factors behind the success of the East Asian economies.

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[18] The eight East Asian economies that generally are included in discussions about the "East Asian Miracle" are Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Singapore, Thailand, and Taiwan.

[19] More broadly, the report is one of several World Bank research contributions to the debate on appropriate public policy objectives and instruments for developing countries and it aims at both the academic world and policy-makers.

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