

## Social Capital: A Multidimensional Approach of Socioeconomic Development

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**Abstract:** There has been a rapid development in the discussion of the notion of 'social capital' since eighties and early nineties. The term has been used in a variety of ways in the literature, but those variations always include connections among people and organizations. The term formally distinguished and named a new form of capital by some scholars who deserve to mention their name especially Bourdieu (1986), Coleman (1988; 1990), Fukuyama (1995), Putnam (2000) etc. All of them emphasized the role of social relations, synergy, shared norms, values and trust. Social capital facilitates coordination and cooperation between individuals or groups. The concept of social capital has been applied to explain a variety of social, political and economic phenomena. This concept highlights the importance of non-market social interactions in socioeconomic outcomes, seeks to fill a lacuna in the traditional neoclassical economic framework. The neoclassical economic framework ignores the role of non-market social interactions determining individual and collective behaviour and shaping economic and social outcomes. In the real world, individual and collective behaviour is continuously shaped by non-market social influences in the form of culture, norms and social structure i.e. social capital. Recently, some scholars have shown that there are positive impact of high levels of social capital on well-being, economic growth, health, government efficiency, security and so on. Though there has been a proliferation of the literature on social capital in recent years, but it is fraught with serious conceptual, measurement and estimation problems. This paper focuses on the concept and essential components of formation of social capital. The paper also highlights the role of social capital in politico-socio-economic development in a developing country like Bangladesh.

**Key words:** Social capital, economic development, Bangladesh

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### Introduction

There has been a rapid development in the discussion of the notion of 'social capital' since eighties and early nineties. Social capital has been used in a variety of ways in the literature, but those variations always include connections among people and organizations. The term formally distinguished and named a new form of capital by some scholars who deserve to mention their name especially Bourdieu (1986), Coleman (1988; 1990), Fukuyama (1995), Putnam (2000) etc. All of them emphasized the role of social relations, synergy, shared norms, values and trust. Social capital facilitates coordination and cooperation between individuals or groups. The concept of social capital has been applied to explain a variety of social, political and economic phenomena. This concept highlights the importance of non-market social interactions in socioeconomic outcomes, seeks to fill a lacuna in the traditional neoclassical economic framework. The neoclassical economic framework ignores the role of non-market social interactions determining individual and collective behaviour and shaping economic and social outcomes. In the real world, individual and collective behaviour is continuously shaped by non-market social influences in the form of culture, norms and social structure i.e. social capital. Recently, some scholars have shown that there are positive impact of high levels of social capital on well-being, economic growth, health, government efficiency, security and so on.

Though there has been a proliferation of the literature on social capital in recent years, but it is fraught with serious conceptual, measurement and estimation problems. This paper focuses the concept and essential components of formation of social capital. The paper also highlights the role of social capital in economic and political development in a developing country like Bangladesh.

**The Concept of Social Capital:** Social capital is viewed as an additional resource to that of physical and human capital. It refers to trust, social ties, synergy, shared norms and relationships among people and communities. Some descriptions refer to its role as a type of social glue or lubricating agents in association with other resources. The concept has its roots in classic sociology and political economy. Different scholars have defined the social capital in different ways. In this section, we provide a few of these for clear understanding of the concept of social capital. Bourdieu (1986) expressed the social capital as "the aggregate of actual and potential resources which are linked to the possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition – or in other words, to membership in a group". This definition focuses the network aspects and influential values of social capital deriving economic and social benefits from group membership.

According to Coleman (1988), "Social capital is defined by its function. It is not a single entity but a variety of different entities, with two elements in common: they all consist of some aspect of social structures and they

facilitate certain actions of actors – whether persons or corporate actors – within the structure". According to Putnam (1995), "Social capital refers to features of social organization such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit." Putnam (2000) extended the definition of social capital as "Social capital is closely related to what some have called 'civic virtue'. The difference is that 'social capital' calls attention to the fact that civic virtue is most powerful when embedded in a network of reciprocal social relations. A society of many virtuous but isolated individuals is not necessarily rich in social capital".

Fukuyama (1995) equates the social capital with 'social trust' and shed lights on its role in reducing transaction costs and increasing socioeconomic efficiency. Again, Fukuyama (1995) defined the social capital as "an instantiated set of informal values or norms shared among members of a group that permit them to cooperate with one another. If members of the group come to expect that others will behave reliably and honestly, then they will come to trust one another. Trust acts like a lubricant that makes any group or organization run more effectively". Dasgupta (2000) explicitly defined the social capital as "It encourages us to amalgamate incommensurable objects, namely (in that order) beliefs, behavioral rules and such forms of capital assets as interpersonal links, without offering a hint as to how they are to be amalgamated."

According to Uphoff (2000) "All forms of social capital represent assets of various kinds yielding streams of benefit. The 'income stream' that flows from social capital is analyzed here as mutually beneficial collective action. The analysis delineates two main categories of social capital: structural (roles, rules, precedents and procedures) and cognitive (norms, values, attitudes and beliefs). A continuum of social capital is presented in terms of people's orientation toward positive-sum outcomes and toward positive interdependence of utility functions."

The World Bank (2000) defines social capital as "the institutions, relationships and norms that shape the quality and quantity of a society's social interactions". Thus, social capital is explicitly relational.

OECD (2001) defines the social capital as the "Networks together with shared norms, values and understandings that facilitate cooperation within or among groups". This definition is compatible with various approaches described above.

From the above definition of social capital, it is obvious that the concept of social capital is a heterogeneous one, embodying a set of distinct, but interrelated notions. These notions of social capital need to be studied.

**Essential Components of Formation of Social Capital:** Forming of social capital varies scholar to scholar. In most of the cases the same ingredients for formation of social capital have been identified in different ways & manners. In view of research contributions, the following seven components may be considered essential in forming social capital:

**(a) Education:** It says that education is the harmonious development of body, mind and soul. This is the basic components of social capital and is considered as an essential part of social capital formation and development. People with higher education are more civically engaged and more trusting than the people with less education. Thus, education whether it is religious or modern plays a dominant role in building the norms, values, humanity, morality, responsibility and positive attitude to the people of a society. The utmost need in this era is to educate properly for future generations, which must include ethical education whether it is business, engineering, general or any other branch of education.

**(b) Social Networks or Interactions:** Social networks or interactions mean the ways in which people relate to one another. Paldam (2000) describes social capital as " the glue that holds societies together". As human being people cannot live alone and he/she depends on his/her family members, neighbours and different types of social groups. By developing social networks people can derive benefits. This is why, it is considered as an important component of social capital. The composition, density and connectedness of various networks are thought to constitute important characteristics of social interactions with implication for society at large (Granovetter, 1973). Social networks have an effect on community productivity and well-being. It can increase productivity by reducing costs of doing business. Social networks allow members to solve collective action problems more easily with less fear of defection and free riding (Putnam, 1993). Some scholars have used three types of social networks such as bonding, bridging and linking.

Bonding social capital occurs in relatively alike groups. It connects and ties among families and specific ethnic groups. It might also arise within a particular social groups bound together by shared identities, interests and particular place of residence. Bonding social capital complimented by strong ties can provide emotional, personal benefits to its members through close support for getting by in life.

Bridging social capital connects different types of peoples and groups (i.e. ethnic, social, gender, political, regional etc.) and can be particularly effective for people seeking social and economic gain beyond their immediate society for getting on in life.

Linking social capital connects groups and individuals to others in a social position. In this case, it connects

between corporate actors, intermediary structure and non-corporate communities or group.

**(c) Civic Participation:** Network that comprises all members of a society serves a role separate from either bonding or bridging social capital. It creates institutions that allow society to function. The participation in the creation and maintenance of these formal institutions is civic participation, which requires trust in the government and its agencies. Social capital can be measured in terms of the degree of civic participation or civic involvement. The level of social capital formation is highly dependent on the formation of different types of civic organizations such as political, cultural, sports, charitable, trade, religious, or other forms of welfare oriented civic organizations through developing mutual cooperation, interactions and trusts to the people in the society. Civic participation encourages in doing well-being of the people and trust in others and it is positively correlated with economic growth. It generates knowledge externalities, lowers transaction costs and provides better enforcement.

**(d) Economic Condition:** Social capital plays an important role in economic success both at the micro and macro level of a country. Economic conditions can affect social capital in many ways. Inequality and marginalization may also reduce the social capital. As Putnam (1993) notes: "Social inequalities may be embedded in social capital". Unemployment isolates a people from society and reduces level of social trust. Secured job encourages people to engage in different social activities and creates positive attitude. Positive economic conditions minimize the distributional conflict over resources (Putnam, 2002). Strong states need strong societies, particularly strong economy. A well-organized society provides the state with crucial feedback on its policies and insures greater public accountability.

**(e) Trust:** Trust in others is a critical component of social capital. It's a belief in the good intentions of others and is a product of mutual obligations. It is what a person would expect others normally do. Trust is a key mediating factor in lowering 'transaction costs' in communities and enterprises and enabling people to work together more effectively and efficiently. The trust and social harmony that glues a community can help overcome the opportunism and moral hazard in interpersonal relationships. Fukuyama (1995) highlights the role of informal and shared values that give rise to trust. It's not new to the world of political economy. Arrow (1972) describes the importance of trust for economic development in this way - "Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by a lack of mutual confidence." This interpersonal trust is related to trust in political institutions. Some scholars like Huntington (1968) emphasize the role of government in trust arguing that political institutions are an important component explaining political stability, social co-operation and civic politics. Trust and durable political institutions can unify a society marked by competing; individual interests and can thus foster long-term, public interests (Huntington, 1968).

**(f) Ethics:** Ethics may be defined as moral conduct of human being. Ethics means choosing between what is morally good or bad, the right over the wrong and fair over the unfair. Different cultures and countries have different languages, dresses, customs, traditions and religions but basic human values and ethics are more alike than different around the world. It is one of the valuable components of formation of social capital. A man with an ethical basis cannot do any unjust, unsocial, unfair activity. Many socio-cultural factors influence the ethical standard of human being. Religion, education, humanism, political system and growth and evolution of the society play vital role in building moral conduct of man in a society. People around the world believe in peace, love, honesty, human worth and dignity, tolerance, justice, freedom, responsibility and unity. By promoting ethics, a nation can be developed its socio-econo-politico condition. In the absence of this, a man indulges in different unethical behaviour like bribery, coercion, theft, crime, corruption and many other immoral activities, which creates a man as dangerous and antisocial and this process forms a corrupted nation. So, every nation should undertake care of building ethics to the people.

**(g) Good Governance:** High levels of social capital can lead to effective government (Putnam, 2000) but it is also true that governments can promote high levels of social capital. It says that 'gov ernment of the people, by the people and for the people'. Governments should build the confidence of their people by ensuring peace, justice, congenial atmosphere, prosperity and secured life and wealth in a society.

For generating social capital some scholars have identified the necessity of a general framework of cooperation between government and associations. Government can encourage and support associations and civic organizations through favourable policies and funding.

**Social Capital Measurement Issues and Difficulties:** Social capital is now, a 'popular talk', a concept for analyzing the politico-socio-economic problems of a country. It is considered as a potential contributor to poverty alleviation and sustainable development. Many authors have investigated the influence of social capital on economic growth

but still social capital has not been measured in any satisfactory way yet (Paldam and Svendsen, 2000). Increasing efforts are being made to identify methods and tools relevant to social capital. This is especially challenging because social capital is comprised of concepts such as trust, ethics, community and networks that are difficult to quantify. The challenge is increased when one considers that the quest is to measure not just the quantity but also the quality of social capital on a variety of scales. Researchers aim in this direction to identify methods and tools, which can quantify and qualify social capital to inform policymakers enabling them to impact existing and create new social capital that could benefit poor people and nations. Each survey has used its own ad hoc methodology due to the heterogeneity of the concept of social capital. Actually, social capital measurement depends on its definition. The comprehensive definitions of social capital are multidimensional incorporating different levels and units of analysis. A consensus concerning a standard method for measuring social capital is strongly needed. Measuring social capital may be difficult but it is not impossible and several excellent studies have already been identified useful proxies for social capital, using different types and combinations of qualitative, comparative and quantitative research methodologies (Woolcock and Narayan, 2000). The study reveals that the emerging literature follows three major threads. The first thread deals with the link between economic growth and social capital. Some important studies in this direction are: Knack and Keefer (1997), Zak and Knack (2001), Collier and Gunning (1999), Rodrik (1998) etc. The second thread deals with the issue how social capital can substitute for missing capital and insurance markets. Some noteworthy contributions in this regard include, Van Bastelaer (2000), Fafchamph and Lund (2003) etc. The third thread deals with the issue how social capital can help circumvent the collective action problem in the provision of local public goods. These studies include Ostrom (2000), Bardhan (2001), Otsuka and Tachibana (2001) and so forth.

**Bangladesh's Economy and Social Capital:** Bangladesh is a country having per capita income only US \$ 350, life expectancy 61 years and illiteracy rate 53 percent of the population. 60 percent of the children suffer from malnutrition for which mortality rate of children under 5 is one of the highest in the world (GOB, 2000). The overwhelming problems of poverty, hunger, malnutrition, illiteracy, unemployment, under-employment (particularly in rural Bangladesh), low wage rate, child labour, dependency on agriculture, insignificant industrial base, lack of infrastructure, high density of population etc. persist in Bangladesh over decades and, for this reason, Bangladesh may seem to be an ideal country to be studied to understand the level of social capital against the challenge posed by developed country with high level of social capital.

Bangladesh's development endeavour at lifting the economy out of its abject poverty covers a period of three decades. The country has adopted the policy of planned development since 1973. The First Five Year Plan was launched in July 1973. This was followed by a Two Year Plan (1978-80) in the background of world-wide inflation and uncertainties. In 1980, the five year plan framework was reinstated and since then three five year plans were implemented in succession. There was no development plan during 1995-97 after the expiry of the Fourth Plan (1990-95). Every plan targeted at an average annual GDP growth rate of above 5 per cent but achieved much less than 4 per cent except during two plan periods when the plan achieved about 4 percent (GOB, 2000). In spite of large inflow of foreign assistance to augment domestic resources, the planned effort for development has not been able to get rid of the low growth trap of the economy. As a consequence of it, nearly half of the population of Bangladesh still continues to have an existence below poverty line without access to any basic amenities of life. There is widespread agreement that economic prosperity; government efficiency and associational activity reflect high levels of social capital. Huge foreign direct investment, exports etc. demand high level of social capital in a country. A country can be achieved this by generating social capital to its people. Recently some scholars like Fukuyama (1995) explore the relationship between social capital, specifically, social trust and macroeconomic performance. According to his findings, Germany, Japan and United States of America are high social trust countries whereas France, Hong Kong, China, Italy, Korea are low social trust countries. He argued that high social trust countries have greater economic success as they can implement more efficient organizational innovations. He also argued that when social trust is limited the supply of capital and qualified managers remains constrained. The basic hypothesis of Fukuyama seems plausible his classification of countries based on social trust is highly impressionistic as is his much-vaunted empirical relationship between social trusts and economic performance. Social capital has been gaining popularity as a concept for analyzing the politico-socio-economic problems of developing countries. Although social capital has not been measured in the context of Bangladesh yet, but from many national & international reports (Bureau of Anticorruption, Transparency International, World Development etc.) and from the present politico-socio-economic scenario of Bangladesh indicates that it is a country with low social capital. Therefore, Bangladesh should take measure the formation of social capital to its people. At present it is very important agenda for the development of Bangladesh's economy. Various social partners including government, market and civil societies should clarify the concept and use of social capital in policy discussion, put the debate on social capital in an Bangladesh context and formulate policy and finally identify a limited range of priority basis of socio-economic issues to be addressed.

## Conclusion

Though not all forms of associations are beneficial, a growing study of theoretical and empirical literature suggests that some types of social capital can enhance economic growth and social welfare. Many studies indicate a high correlation between social capitals; particularly trust in government and economic performance. Though some scholars namely Putnam and others have argued that high levels of social capital can promote effective governance. But, on the other hand, governments can also enhance the levels of social capital through public policies. Government policy can create an environment conducive to social capital formation by fostering social trust and trust in government and by supporting associations through resources and funding.

In this article, we did not measure the level of social capital (i.e. level of social networks, level of civic participation, level of social trust etc.) of Bangladesh. Further studies in this direction could be undertaken.

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