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**FROM ECONOMICIST TO CULTURALIST DEVELOPMENT
THEORIES: HOW STRONG IS THE RELATION BETWEEN
CULTURAL ASPECTS AND ECONOMIC DEVELOPMENT?**

José Cuesta

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ABSTRACT

Culture has been either neglected as a determinant of economic growth by *economicist* theories or deemed the main explanation behind international developmental differences by *culturalist* theses. Empirical evidence supports neither of these arguments. Less ambitious theories connecting concrete cultural aspects, such as trust and associational participation in communities, have more convincingly estimated a significant and positive impact on economic welfare. Using the case of Honduras, this paper similarly estimates a positive, significant and mutual relation between interpersonal trust and participation in community management and economic welfare.

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ABSTRACT

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1 INTRODUCTION

After decades of neglect, there is now a growing interest in the role that culture plays in developmental processes. Standard economic modelling has been extended to include social, political and cultural variables to account for economic growth. International financial institutions have started to draft (admittedly modest) agendas for cultural development. These agendas recognise several developmental aspects, from the economic potential of culture in the tourism industry to the virtues of a participatory culture promoting community cohesion. Governments have also grown more sensitive to the role that culture may play in the context of development. Recent poverty reduction strategies of the highly indebted poor countries explicitly link – nominally at least – national development with cultural and moral values.

Arguments which prioritise culture as a prominent development factor are not new. Early in the twentieth century, Max Weber raised awareness of the importance of a set of values to explain the success of industrial capitalism *vis-à-vis* pre-capitalist agrarian societies across Europe (Weber 1905). From the late 1960s to the late 1980s, however, the ‘hard’ economic reality of stabilisation and structural adjustment packages elbowed cultural aspects out of development agendas. Since the 1990s, both the paradigm of human development and passionate discussions on globalisation has revived interest in the role of culture in economic development. The myopic approach of many analyses has contributed to a heated debate. ‘One-size-fits-all’ *culturalist* (and *economicist*) analyses attempt to explain development by turning a handful of historical episodes into universal paradigms. Unsurprisingly, empirical evidence does not support such claims.

Less ambitious analyses have more successfully shown that concrete cultural mechanisms have a positive and significant impact on economic development. This paper adds to this limited stock of empirical evidence. The first part of the paper presents a critical review of developmental paradigms and the role attributed to culture. Arguments are divided into two categories: those ‘on the fringes’ which deal with an overarching concept of culture; and other, less ambitious arguments which emphasise specific values and behaviours in society. Crucially, the latter provide empirical evidence that trust, civism and community participation can have significant impacts on economic welfare. The second half of the paper considers the case study of Honduras and estimates, country-wide, the impact of trust and community management participation on household welfare. The results show a strong positive,

significant and simultaneous relation between a composite of interpersonal trust and community management, and household welfare.

2 CULTURAL ASPECTS ‘ON THE FRINGES’: FROM ‘*ECONOMICIST*’ TO ‘*CULTURALIST*’ THEORIES OF DEVELOPMENT

Although cultural development as an objective of broader development has only recently been recognised, culture – widely understood as a system of values, beliefs and behaviours present in a society (Sen 2004) – has long been recognised as a determinant of economic development. The relevance that has been attributed to it has varied widely, however, from neglect at one end of the spectrum to culture being treated as *the* over-arching cause of global developmental differences, at the other end. Early work within the exogenous growth paradigm, for example, completely failed to connect economic and non-economic aspects. It is as if – to quote Fukuyama (1995: 6) – ‘the economy is a realm in which individuals ... satisfy their selfish needs and desires before retreating back into their “real” social lives’. Nurkse (1953), Lewis (1955) and Solow (1956), among others, recognised only the logic of the market for competitive capital accumulation. During the mid-1980s, however, growth theory started to reject the idea of capricious technological development as the basis for long-term growth. A first wave of models of so-called endogenous growth (Lucas 1988; Romer 1990; Barro 1991) put forward a new concept of capital, extending the traditional ideas of physical and financial capital to include human capital. Economic growth had abandoned the strait-jacket of diminishing returns (Barro and Sala-i-Martin 1995: 13). New factors such as research and development, imperfect competition, information asymmetries, externalities, and technological diffusion all became important, as did public action, especially fiscal policy, provision of infrastructure, and intellectual property, commercial and financial regulation. In spite of these shifts, however, cultural aspects remained peripheral, outside the roots of long-term economic growth.

In contrast with capital accumulation theories – classical or augmented – other theories have talked of specific cultural aspects or of culture more generally, as the fundamental determinant of economic development. Some have used culture to explain past successes, while others concentrate on conditions for future development. Landes’s explanation of early industrialisation in Europe and in England particularly,

emphasises ‘nonmaterial values (culture)’ and institutions (Landes 1998: 215) in conjunction with the institutionalisation of technological advance. According to Landes, the fact that England at that time was a nation with a strong sense of identity and a precocious inclination for political and civil freedom and the security of its people put it in a better position to embrace technological and economic development than Islamic and Chinese societies.¹ More contemporary approaches, such as that of Porter (1990), focus on rapid and sustained productivity growth as the cornerstone of economic development in a global world. His ‘competition paradigm’ argues that productivity depends not so much on the industries with which a nation competes internationally, but *how* this nation competes. And national culture plays a significant role in a nation’s capacity to organise its production efficiently. As the globalisation process neutralises former economic advantages associated with geographical location and endowments and traditional barriers, values promoting competitiveness become increasingly decisive. Furthermore, Porter (2000) concludes that the adoption of this competition culture is not an option but an imperative within the current global context.

Of course, other authors disagree with the contention that global market-oriented processes are imperative and unstoppable, while still considering cultural aspects as determinants of economic development. Chang and Grabel (2004) recently argued that the ‘no-alternative’ view of free market neoliberal globalisation is a fallacious myth. They also reject the notion that the East Asian development model is culturally idiosyncratic and could not be reproduced elsewhere, as much as they reject the idea that the Anglo-American neoliberal model is based on universal values. Unfortunately, they do not provide a yardstick with which to judge universalism which would strengthen their arguments. On a different note, Chua (2003) argues that the current process of economic liberalisation has magnified opportunities across the world for ‘market dominant’ ethnic minorities to concentrate disproportionate wealth in local economies.² When this process is followed by disorderly and hasty Western-

¹ Material factors also played a role in the English success in early industrialisation. Landes identifies the purchasing power of the lower classes and the wealth of the middle classes as a key factor in the demand for industrialised production.

² Examples of this phenomenon abound in developing countries: the Chinese minority in Indonesia, Malaysia and Thailand; the Lebanese in Kenya, Uganda, or Tanzania; the Whites in South Africa and Zimbabwe in Africa, or in Guatemala, Ecuador or Bolivia in Latin America; the Jews in post-Communist Russia; the Hutus in Rwanda, the Ibo in Nigeria and the Kikuyu in Kenya.

pushed democratic liberalisation, the resentment of local majorities prompts the spiral of confrontation seen in places such as Indonesia, Zimbabwe or Bolivia. Although there is no unique reason for minorities to thrive economically, Chua concedes that part of this success is due to 'culture/family networks'. Disappointingly, the extent to which these networks are responsible for that success as compared to entrepreneurial values, alliances with autocratic elites ('crony capitalism') or colonial practices, for example, is not clarified.

Other 'culturalist' explanations have gone much further. They constitute what Sen (2000: 11) calls 'over-grand' cultural theories. They maintain that culture is the main single factor explaining worldwide economic, political and social differences. Huntington's thesis of clashing civilisations, in which individuals no longer identify themselves along ideological lines but as part of cultural groups, is well known. Huntington (1993) predicts that, as a result, economic globalisation will lead to a ferocious competition among civilisations and a protracted confrontation among the most prominent cultures. He envisages that economic competition without cultural convergence will dominate future world relations. Confrontation between democratic, communist and fascist regimes has been replaced by Western, Islamic, Confucian (and other) culture clashes. A frequent critique of this thesis, however, is that traditional civilisations are bound to conflict. There are, after all, at least as many examples in history of civilisations collapsing at the hands of others, as there are of successful episodes of cooperation among them.

Another well-known *culturalist* position is Max Weber's thesis that the hegemony of capitalism is a cultural phenomenon associated with religion. Protestantism, or more specifically Calvinism, would have facilitated in Europe the adoption of a modern industrial capitalism seeking wealth accumulation. Calvinism is believed to advocate an ethical code of individual behaviour conducive to economic success based on hard work, honesty and a prudent use of time and resources. According to Landes (2000), Protestantism institutionalised a behavioural pattern of rational, diligent and productive work. Although this was neither new nor exclusive to this religion, it had not been systematically exercised in previous traditional agricultural societies. While these values spread widely along with the Protestant Reform in Central Europe, traditional values of obedience and religious faith remained in Southern Europe. That explains, according to Rao (1998), why decades of poorer economic performance ensued across Southern Europe. Similarly,

Huntington (2000) argues for the existence of superior cultures as far as economic development is concerned. In his comparison of the development of Ghana and South Korea over the last forty years, Huntington claims that the two countries had similar per capita income levels, economic sectors and composition of exports in the early 1960s. Thirty years later, South Korea was an industrial giant and the fourteenth largest world economy, and its per capita income levels were fifteen times higher than those of underdeveloped Ghana. Huntington attributes these divergent paths to different values prevalent in each society: South Korea championed values of saving, investment, hard work, discipline, organisation and learning, all absent in Ghana.

There are numerous reasons to exercise great caution in the face of these ‘over-grand’ *culturalist* theories. While they may explain specific episodes of development, they fail to clearly explain the international development experience following the Second World War. Sen (2004) is suspicious of the malleability of the original argument, moulded to account for the economic modernisation of European Catholic countries first; then Japan; later on, the Asian tigers; and more recently, countries like Indonesia, Malaysia, India or China. Similarly, Weiss and Hobson (1995) remind us that the same revered Confucian ethics, to which *culturalist* theories attribute the success of East Asian countries, has been associated for centuries with stagnant economies. They also reject the implication that Confucianism encompasses a homogeneous ethics, an argument equally applicable to Christianity or Islamism. Instead, they argue that the choice of political arrangements such as strategic industrialisation guided by the State is behind the development success of the region.

In any event, the recurrent swing from neglect to over-explanatory connections of culture and economic development seems to be grounded on arguments which fit only specific instances of success. They are systematically disappointing in explaining why the supposedly superior factors had failed to act in previous situations, and why they did not continue to act. Nor do they explain why ‘successful’ values fail to prevent hiccups along the development process. In other words, *culturalist* arguments fail to explain the *dynamics* of economic development. Furthermore, they share with *economicist* views the same myopia of ‘one-size-fits-all’ stories of successful development. Neither does the empirical evidence seem to support arguments of superior cultures. Table 1 reports a comparative analysis of ten ‘miracles’ and ‘disasters’ of economic growth since the 1960s, using Temple’s

TABLE 1
Socio-cultural characterisation of economic miracles and failures

	% annual GDP growth per worker 1960-90	HDI ranking	Main religion	Ethno-linguistic fragmentation (%)	European colony?	Access to sea?
I. Miracles						
Korea	6.1	30	Buddhism	0	No	Yes
Botswana	5.9	125	Indigenous beliefs	51	British	No
Hong Kong	5.8	26	Buddhism, Confucianism	2	British	Yes
Taiwan	5.8		Buddhism	42	No	Yes
Singapore	5.4	28	Buddhism, Islam	42	British	Yes
Japan	5.2	9	Confucianism, Buddhism	1	No	Yes
Malta	4.8	33	Catholicism	8	British	Yes
Cyprus	4.4	25	Orthodox	35	British	Yes
Seychelles	4.4	36	Catholicism	...	British	Yes
Lesotho	4.4	137	Christianity *	22	British	No
II. Disasters						
Ghana	-0.3	129	Christian *	71	British	Yes
Venezuela	-0.5	69	Catholicism	11	Spanish	Yes
Mozambique	-0.7	170	Indigenous beliefs, Christianity *	65	Portuguese	Yes
Nicaragua	-0.7	121	Catholicism	18	Spanish	Yes
Mauritania	-0.8	154	Islam	33	French	Yes
Zambia	-0.8	163	Catholicism	82	British	No
Mali	-1.0	172	Islam	78	French	No
Madagascar	-1.3	149	Indigenous beliefs, Christianity *	6	French	Yes
Chad	-1.7	165	Islam	69	French	No
Guyana	-2.1	92	Christianity *	58	British	Yes

Source: CIA (2003), Mauro (1997), Sala-i-Martin (1997), Temple (1999), UNDP (2003a)

Notes: Human Development Index rankings refer to 2001 and are reported by the Human Development Report 2003 (UNDP, 2003a); ethno-linguistic fragmentation by Mauro (1997); colonial history and predominant religion by Sala-i-Martin (1997) and CIA (2003).

* indicates that original sources do not specify the main faith within Christianity.

(1999) classification of successful and failed experiences of economic growth. Indicators of human development, religion, ethno-linguistic fragmentation, colonial history, and geographical location are the variables used for comparison.³ Rates of growth of the product per worker determine which countries are categorised as economic successes and failures. This simple exercise shows that there are no systematic patterns between cultural, social and geographical characteristics and

³ The ethno-linguistic fragmentation index measures the probability of two ethnically and/or linguistically different individuals belonging to the same country. The maximum value of the index, 100, indicates that all individuals in a country are ethnically or linguistically different, while 0 implies that all individuals belong to the same ethnic or linguistic group. Taylor and Hudson (1972) describe the methodology for constructing the index.

economic performance. Countries that averaged the highest annual growth rates since 1960 may fare worse than ‘failed’ countries in their human development index. This is the case for economically successful Botswana and Lesotho, and disastrous Venezuela. Neither is economic performance systematically associated with the degree of ethno-linguistic fragmentation, whether countries have been colonies in the past, or whether they are landlocked. In other words, one cannot hope that certain cultural, geographical and historical patterns will guarantee economic growth on their own. Nor does any culture seem *a priori* bound to economic failure.

3 MOVING AWAY FROM THE FRINGES: CULTURAL ASPECTS AS RELEVANT FACTORS OF ECONOMIC DEVELOPMENT

Alternative arguments have burgeoned midway between *economicist* and *culturalist* explanations of economic development. These emphasise the impact that relations among individuals and between individuals and institutions have on several aspects of economic development. Social capital has become an increasingly influential concept that highlights the importance of values, beliefs and attitudes of a society in the growth of its economy. As with culture, social capital is an elusive concept and difficult to measure; as a consequence, a consensus on which mechanisms of social capital enhance economic growth has not yet been reached. Coleman (1990) uses ‘social capital’ to refer to those relations of authority, trust and allocation of rights that become norms in a society. Putnam (1993) emphasises bonds of belonging in groups, whether family-based or of a different nature. He argues that these relationships are positive for economic growth because they instil ‘habits of cooperation, solidarity and public service’ conducive to growth (Putnam 1993: 89-90).

Interestingly, Fukuyama distinguishes between social capital and what he calls ‘spontaneous sociability’ (Fukuyama 1995: 27). Social capital is a capability that arises from the prevalence of trust in a society or in certain parts of it. As such, social capital is usually created and transmitted through cultural mechanisms like religion, tradition or historical habit, and in contrast with other forms of capital, it cannot be acquired by a rational investment decision. Spontaneous sociability, on the other hand, is a subset of social capital and refers specifically to the capacity to form new associations and act cooperatively within these associations. Levels of trust ultimately

determine the proclivity for spontaneous sociability and social capital in a society. And they have important economic consequences. Fukuyama makes a compelling case for these economic impacts. Sociability and social capital in a society affect the nature of the organisations dominating its economy, either small family-related or large private business organisations. In low-trust economies, administrative rules and bureaucratic structures (that substitute for trust) constitute an implicit tax on economic activity and a transaction cost. Contrary to Porter's (2000) arguments, small firms may not compete internationally in the same sectors as large companies. Large-scale capital-intensive industrial organisations sponsored by the State are arguably less efficiently managed than their private sector counterparts. Examples of 'lean manufacturing' (in which production is horizontal and communally organised) deny a trade-off between community and efficiency. Ultimately, it is not that low-trust countries cannot do well economically – recent examples of successful, low-trust economies include, for instance, Italy, France, Hong-Kong, Taiwan and China – but, Fukuyama argues, the nature of these economies means that they may continue to participate in very different economic sectors and never be able to replicate the development paths of high-trust societies such as Japan, the US, Germany, Sweden or Holland. How future markets and technology evolve will determine whether these countries will sustain long-run economic growth, but low levels of trust may harm their long-term growth potential.

While Fukuyama's case is certainly compelling, not everything that glistens in the story of social capital turns out to be gold. On the one hand, in spite of Fukuyama's claims for the advantage of trust in periods of sudden shocks, high-trust built-in structures may also result in periods of protracted crisis in the same way as rigid regulations in low-trust countries. On the other hand, Olson (1982) argues that one of the features associated with higher levels of social capital, namely, associationism, tends to institutionalise rent-seeking, with a resulting loss of efficiency in the economy. Knack and Keefer (1997) conclude that the impact of associationism on economic growth is neither positive nor negative. What they find is that relationships of trust and collective civism in a society are strongly correlated with higher economic growth. Large stocks of social capital may reduce or eliminate disincentives to invest and substitute for institutions in underdeveloped judicial systems. They may also improve the provision of public services as the economic environment becomes more stable and credible. Social capital typically strengthens

civic participation, which may result in higher demands for transparency and accountability in the public sector, ultimately promoting economic efficiency and growth. Empirically, Knack and Keefer (1997) find that the effects of trust and civism on economic growth rates for a sample of twenty nine countries between 1981 and 1995 are significant and positive. Increases of 10 percent in constructed indexes of trust and civism may on average raise the annual rate of per capita GDP growth by 0.8 percent and 0.675 percent, respectively. Also, there are strong effects on investment, as reported in table 2.

Besides values and behaviours, political and institutional relations are also believed to be relevant for economic growth. Concepts such as ‘social infrastructure’ (Hall and Jones 1999), or ‘good governance’ (Kaufman et al. 1999; Islam and Montenegro 2002) are concerned with the way institutions work and their impact on economic relations. In as much as institutional functioning is both shaped by and expected to shape societies’ and communities’ behaviours and norms, it is also part of a cultural link with development. In this perspective, a country or a community is more favourably equipped for economic growth when its public policies generate trust among economic agents and enhance workers’ productivity, the accumulation of physical, human and financial capital, and the innovation and transfer of technology. Table 2 shows that the order of magnitude of such gains is not negligible.

TABLE 2
Potential gains from eliminating perceived corruption and increasing social capital and social infrastructure (selected studies)

Index	Source	Average reported effect on:	
		Per capita GDP growth (%)	Investment over GDP
Perception of corruption	Mauro (1997)	0.3-0.4	1.9-3.2
Social capital: trust	Knack and Keefer (1997)	0.8	1.4
Social capital:civism	Knack and Keefer (1997)	0.7	5.0
Social infrastructure	Hall and Jones (1999)	4.4 - 5.4a	n.a.

Note: Estimated effects report the change in per capita GDP growth and investment ratios caused by a 10% variation in the incumbent index. (a) Effects are estimated as change in GDP growth per worker. Hall and Jones (1999) results are estimated for a sample of 127 countries between 1960 and 1995. Mauro's (1997) database consists of 58 countries with complete information for the period between 1960 and 1985.

In line with the results of multi-country studies, a few recent analyses have also found that participation in local associations (taken as proxy for social capital) has a positive impact on economic welfare. Studies by Grootaert (1999), Narayan and Pritchett (1999), Grootaert and Narayan (2001), and Grootaert et al. (2002) report a significant and positive relation between social capital and household welfare. Increases of 10

percent in the level of social capital raise household expenditure per capita by around 5. percent in communities of Burkina Faso, Tanzania, Bolivia and Indonesia. The estimated effects of social capital on economic welfare are larger than the effects of human capital. Unfortunately, these studies focus on a handful of communities and there is no confirmation of their findings at a national level. In the following section, relations between trust and participation in community management and economic welfare are estimated country-wide for Honduras.

4 TRUST, PARTICIPATION IN COMMUNITY MANAGEMENT AND ECONOMIC WELFARE IN HONDURAS.

4.1 Why Honduras?

The recent history of Honduras has included an array of events affecting economic development and values, attitudes and behaviours simultaneously. In addition to the devastation caused by Hurricane Mitch itself, in 1998, the post-Mitch reconstruction period demanded the local management of enormous international resource flows, and an unprecedented mobilization of communities, municipalities, NGOs and the private sector.⁴ The management of the reconstruction effort at the community level is widely acknowledged to have strengthened individuals' trust in their communities, fellow citizens, and the international community (UNDP 2003b). Paradoxically, this contrasts with a generalised distrust in the national political and institutional establishment. Rápalo (2001) links this distrust with the unfinished transition towards a true participatory democracy. *Latinobarómetro* (Lagos 2001) reports that only 55 percent of Hondurans stated a preference for democracy over authoritarian regimes in 2001, whilst 60 percent were either 'somewhat' or 'very' dissatisfied with the functioning of their democracy in that year.⁵ The view that politicians disrespect the law, pursue their own interests over national interests and do not have any concern for the poor is almost universal in the country. Unsurprisingly, the recent Poverty Reduction Strategy Paper (Government of Honduras 2001) has

⁴ Government of Honduras (2001) estimated that international aid related to reconstruction reached US\$ 2,769 million.

⁵ Although these levels were no different from other Central American countries (except in Costa Rica, where they were markedly lower), Honduras was the only country in the region where dissatisfaction with democracy had steadily grown since first recorded in 1996.

gone a long way to show a clear link between values of respect of the law, democratic participation and intolerance to corruption, and national development.

Another factor that makes Honduras an interesting case is the availability of the 2001 Transparency and Corruption Survey, or TCS (Seligson 2001). The survey is a source of information on social, political and cultural values, perceptions and behaviour. Some 3,000 households all over the country were asked in 2001 about their tolerance towards corruption, and their levels of trust in public institutions, the judiciary, private enterprises, the military, the church and non-governmental organisations. Individuals were asked about their perceptions of prevailing corruption in these institutions, as well as their political preferences and ideology; they were also asked about their trust in individuals—in concrete terms, whether they believed that fellow citizens would take advantage of them in difficult times and whether others would help them if needed. Although the TCS did not collect information on associational life and participation in networks, it did ask about participation in local councils meetings (*cabildos abiertos*) and in other forms of social auditing in the community. Interviewees were also asked about their religious beliefs. In terms of economic welfare, the TCS reported on households' access to public services and their incomes, in the form of income brackets, but failed to capture information on expenditures, productive equipment, land or any asset other than consumer durables. Neither did it provide information on strategies to cope with shocks, or on service provision profiles within the community. Appendix 1 presents in detail the original information from the TCS, and the variables created for the purposes of this analysis.

4.2 The distribution of trust and community participation in Honduras

Table 3 below shows the rates of trust of individuals and levels of community management participation (*cabildos abiertos*), grouped together in an index. This composite admittedly falls short of a proper social capital proxy, as the TCS fails to capture explicitly associational life and networking. However, it is believed to represent critical aspects of social capital (such as trust and participation) along the lines emphasised by Fukuyama (1995). A feature of the estimates for Honduras is that households with more unsatisfied basic needs (UBNs) report higher levels of

interpersonal trust and participation in community management.⁶ This result is consistent with the aforementioned studies of associationism and household welfare at the community level. Households headed by males and households located in rural areas have also higher levels of the composite than female-headed and urban households.⁷ As expected, bad experiences in the post-Mitch reconstruction phase, and perceptions that reconstruction funds were mismanaged significantly reduce individual trust and community management participation. In contrast, individuals with higher perceptions of good governance and institutional trust also score higher in the individual trust and participation composite. Preference for democracy is associated with higher levels of the composite, although the intensity with which democracy is preferred over authoritarian regimes does not significantly affect trust or participation. This result also reflects the fact that a considerable proportion of respondents (35 percent) indicated a ‘weak’ preference for democracy (that is, a preference for democratic over authoritarian regimes) but also considered basic living conditions more important than majority rule. Not surprisingly, higher perception of widespread corruption correlates with lower levels of trust and participation among Hondurans. The same negative relation is found when individuals believe that fellow citizens would not help them in case of need and/or would take advantage of them whenever there is an opportunity. Interestingly, being intolerant to corruption is associated with higher levels of social capital but this association is not statistically significant. There may be several reasons for this, including the almost universal acceptance among Hondurans that corruption is a generalised practise, and the

⁶ The Unsatisfied Basic Needs (UBNs) variable is constructed from information on household access to drinkable water, electricity, and floor material. This is only a partial index of basic needs as defined by the national Human Development Reports. However, the TCS survey reports neither the household size nor the number of rooms, so that crowdedness in the household cannot be included in the UBN calculation. Educational attainment is excluded from the definition of UBN because it is used in the estimations as a proxy for household human capital. See appendix 2.

⁷ These results do not necessarily indicate that females or urban residents have less interest or commitment in community participation. It is more likely that women participate less in council meetings and social audit activities than men in order to fulfil their ‘duties’ of reproductive and productive chores. Also, individuals may find easier to participate in council meetings in small communities than in larger urban communities. In the latter, representation is usually delegated to some members of the community.

imprecise formulation of the question capturing tolerance to corruption.⁸

Levels of ideological radicalism are not associated with large differences in interpersonal trust or community participation. In contrast, different religious values do lead to a marked variation. Evangelists seem to trust people less than other religions and participate less in social control mechanisms. The reasons for this are unclear, but it might be the case that Evangelists prefer to participate in their own religious associations even when these are not part of the local community, as reported for Burkina Faso by Grootaert et al. (2002).

TABLE 3
The distribution of trust and community management participation in Honduras

	TRUST AND COMMUNITY MANAGEMENT PARTICIPATION (INDEX AVERAGE)	T-TEST (Ho: NO DIFFERENCE)
Personal and household characteristics		
Education (years of schooling)		
A. 0-3	33.68	[A-B] 2.91**
B. 4-9	30.97	[B-C] -3.89**
C. 10+	35.87	[A-C] -1.60
Gender of head		
A. Male	34.09	[A-B] 4.02**
B. Female	30.75	
Location		
A. Urban	30.43	[A-B] -4.16**
B. Rural	33.93	
Unsatisfied Basic Needs		
A. 0	31.36	[A-B] -1.82
B. 1	33.41	[B-C] -0.71
C. 2+	34.31	[A-C] -2.90**
Mitch aftermaths		
Perception of mismanagement during Mitch		
A. There was no/little mismanagement	35.12	[A-B] 5.18**
B. There was a lot of mismanagement	30.72	
Perception of reconstruction efforts		
A. Bad reconstruction	30.99	[A-B] -2.81**
B. Fair or good reconstruction	33.38	
Political values		
Preference for democracy		
A. Preference for order and authority	30.95	[A-B] -2.36**
B. Weak preference for democracy	33.78	[B-C] 0.01
C. Strong preference for democracy	33.77	[A-C] -3.03**
Ideology		
A. Moderate (4,5,6 in a 1-10 scale)	33.04	[A-B] 1.32
B. Radical (1,2,3, 7, 8, 9, 10)	31.70	

⁸ The TCS inquired about the degree of intolerance (none, weak, strong) to eleven acts of corruption, from the private use of a public car to bribing politicians: see Appendix 1. Individuals who claim to be strongly intolerant to high-level corruption (such as bribes to politicians) may not feel so strongly about low-level acts of corruption such as students giving presents to teachers. If that is the case, tolerance to low-level corruption may balance out intolerance to high-level corruption. This averaging may result in a less sensitive measurement of tolerance to corruption.

Perception of good governance		
A. Weak	31.37	[A-B] -1.96*
B. Moderate	33.11	[B-C] -0.75
C. Strong	34.13	[A-C] -1.97*
Trust in institutions		
A. No/little trust	30.78	[A-B] -4.68**
B. Fair or strong trust	34.29	
Social values		
Perception of corruption		
A. Weak	29.29	[A-B] -1.84*
B. Moderate	32.05	[B-C] -2.03**
C. Strong	33.86	[A-C] -3.05**
Would neighbour help in case of need?		
A. No	30.63	[A-B] -8.50**
B. Yes	39.22	
Would neighbour take advantage when possible?		
A. No	40.61	[A-B] -9.50**
B. Yes	30.42	
Tolerance to corruption		
A. No	32.72	[A-B] 1.03
B. Yes	31.77	
Religious values		
A. None	30.67	[A-B] -1.67
B. Catholic	33.30	[B-C] 2.08**
C. Evangelist	30.87	[C-D] -1.98*
D. Other	40.00	[A-D] -1.85

Source: Author's estimates from Transparency and Corruption Survey (Seligson 2001).

Note: Definitions as indicated in Appendix 1. T-test statistics permit testing of null hypotheses of no statistical differences between the means of the trust and community participation index among different categories. Pairing of t-tests are indicated with letters A to D. (**) indicates that the null hypothesis of no mean differences is rejected at 1% level; (*) indicates that the null hypothesis of no mean differences is rejected at 5% level; otherwise, the null hypothesis of no mean differences is accepted, that is, the means are statistically equal for the pair considered. The national average of the trust and participation composite is 32.44, and the national average of UBNs, 0.72.

4.3 The impact of trust and community participation on economic welfare

A first (empirical) difficulty in quantifying the relation between trust, community participation and economic development is to find an operational concept of economic development relevant at the household level. Unsatisfied basic needs (UBNs) are selected as this preferred indicator. The choice of this welfare measurement is partially explained by data restrictions (deficiencies in the reporting of incomes and the absence of information on expenditures and wealth in the TCS), but it is also applicable because of benefits specific to UBns.⁹ A second (methodological) caveat is a potential simultaneous relation between trust and

⁹ In practise, the use of UBns is subject to lower measurement errors than income or expenditure. UBns are less likely to fluctuate over time than expenditures and, especially, incomes. Also, this welfare indicator is in line with current efforts to capture the multidimensional nature of welfare beyond the standard money metrics.

participation, and welfare levels. After all, community management participation has an opportunity cost. If a mutual relation exists, it is necessary to isolate the effect of trust and participation on welfare from the effect of welfare on trust and participation. A well-known econometric technique, Three-Stage Least Squares (3SLS), allows for the unbiased estimation of a simultaneous relation. In such cases, 3SLS produces unbiased, consistent and (asymptotically) efficient estimates (Kmenta 1986: 699). The estimation of a simultaneous equation model is discussed in appendix 2.

Specification tests in table 4 confirm the presence of a simultaneous relation and show that 3SLS is preferred over alternative estimation techniques. Honduran estimates also indicate a significant and positive effect of households' trust and community participation on their welfare levels: higher levels of trust and community participation are associated with fewer UBNs in the household (see the UBN equation in table 4).

TABLE 4
Effects (in form of elasticities) on UBNs and social capital in Honduras, 2001

Determinants of Unsatisfied Basic Needs	Effects on Unsatisfied Basic Needs (average variation in the number of household UBNs)	Determinants of the Trust and Community Participation Composite	Effects on the Index of Trust and Community Participation (% variation in the index, 0-100)
Years of schooling	-5.64**	Unsatisfied Basic Needs	7.50 **
Catholic (practising)	0.62	Perception of corruption	-7.05 **
Catholic (not practising)	0.01	Perception of mismanagement of Mitch funds	-0.55 **
Evangelist	-0.01	Perception of neighbour's help	0.96 **
Other religion	0.05	Belief that people will not take advantage of others in need	1.81 **
Trust and community participation index	-5.62**	Trust in institutions	0.02
Tegucigalpa	-0.49 **	Democratic values	1.92 **
San Pedro Sula	-0.45**	Degree of ideological radicalism	-0.15
Departmental capital	-0.13 **	Political bias	-3.01
Municipality capital	-1.61 **	Exposure to the media	3.87 **
Other city	-0.67 **	Age	0.00**
Number of children	0.47	Gender (female as reference)	-2.43 **
Bad post-Mitch reconstruction	4.28**		

Test	Chi2 Statistic (14)	Ho: Both specifications are statistically identical
Hausman Test of 3SLS vs. 2SLS	14.38 **	Ho Rejected. 3SLS is more efficient a specification than 2SLS
Hausman Test of 3SLS vs. OLS	-18.68 **	Ho Rejected. 3SLS is more efficient a specification than OLS

Source: Author's estimates of equations (5) and (6) using Transparency and Corruption Survey (Seligson, 2001).
Notes: Effects estimated as re-scaled elasticities, that is, the % impact on UBN and the trust and community participation index, respectively, due to changes of 10% in independent variables. (**) indicates that the estimate is significantly different from 0 at 1% level and (*) at 5%.

Given the deficiencies of public service provision (water, sanitation, electricity), community participation and informal alliances may well prove decisive in gaining and maintaining access to such services. Local water councils (*juntas vecinales de agua*), for example, participate actively in the management of drinking water services in municipalities across the country. Furthermore, urban location of the household decreases the expected number of its UBNs, surely reflecting a deficit of infrastructure and basic service provision in rural areas. Wherever post-Mitch reconstruction efforts are perceived to be unsatisfactorily, households report higher UBNs. Human capital (proxied by household head's years of schooling) has the expected negative and significant coefficient on UBNs: the more educated the household head, the fewer UBNs are found in that household. In contrast, religious values do not affect welfare levels: differences in household UBNs are independent of their members' religious values. Interestingly, evidence in Honduras does not support Weber's hypothesis of superior religious values. On the other hand, higher household UBNs are associated with higher levels of trust and participation (See the trust and participation equation in table 4). Social and political values have the anticipated effect on trust and participation. A low perception of corruption is associated with higher trust and participation in community management. Similarly, individual perceptions of neighbours' willingness to help in difficult times and the belief that fellow citizens would not take advantage of the needy have significant and positive effects on trust and participation. Preferences for democracy over authoritarian regimes affect positively and significantly the accumulation of trust and participation in community management. On the other hand, bad post-Mitch reconstruction experiences have a significant but negative bearing on current levels of the trust and participation composite. Having controlled for these effects, other social values are not found to be statistically significant determinants of the composite. This is the case

for the degree of ideological radicalism, political bias, and institutional trust. It is likely that the perception of corruption already captures the effect that such values and attitudes may have on the trust and participation composite. Age and gender have significant effects on social capital, although the magnitude of the positive age effect is negligible. The result for gender does not necessarily mean that women have lower interest in participation (although they report systematically lower levels of trust than men). It is more likely that this coefficient reflects the well-documented gender division of household chores in Latin America and elsewhere (Jejeebhoy 1995). Even when there is evidence – see Correia (2001) – that families in Honduras and Nicaragua increased the income-generating role of females in the post-Mitch reconstruction period, their participation in community activities did not follow suit.

As for the magnitudes of these effects, differences in household welfare levels are the single most important determinant of trust and community management participation. An increase of 10 percent in the welfare index leads to an increase in the trust and participation index of 7.5 percent. In turn, a 10 percent increase in the trust and participation composite increases welfare levels by 5.6 percent. Notwithstanding different definitions used, the magnitude of this effect in Honduras is remarkably close to the estimated effects reported for Burkina Faso by Grootaert et al. (2002). In Honduras, the effects of human capital, on the one hand, and trust and participation, on the other, upon household welfare are similar. This contrasts with smaller human capital effects reported consistently for Burkina Faso, Indonesia and Bolivia. Quality considerations apart, average years of education for an adult household member in those countries are lower than in Honduras.¹⁰ This suggests that, in contrast to Fukuyama's argument that social capital cannot be invested in, strengthening trust and community participation may well become a rational strategy for households in an unfavourable position to accumulate human capital when opportunities are unequal.

5 CONCLUSIONS

A critical review of *economicist* and *culturalist* paradigms shows that the developmental role attributed to culture in general, and to specific values, beliefs, and behaviours in particular, has fluctuated between two extremes, from complete neglect

¹⁰ The figures are 0.7 years in Burkina Faso, 3.9 in Bolivia, 4.8 in Indonesia and 5.7 in Honduras; see Grootaert et al. (2002) and UNDP (2003a).

to claims of explanatory superiority. If the ability of these latter claims to go beyond isolated successful episodes and to explain the *dynamics* of economic development is rather poor, the lack of supporting evidence is even more disappointing. Less ambitious theses, however, have shown more convincingly that specific values of trust and civic, participatory and associational behaviours have a significant impact on national economic development and community welfare. This study has also confirmed that specific cultural aspects may well have a positive and significant impact on economic development. In Honduras, interpersonal trust and participation in community management are strong determinants of household economic welfare, together with geographical location, human capital or the degree of devastation and reconstruction following Hurricane Mitch. At the same time, lower household welfare is significantly associated with higher interpersonal trust and community management participation. Developing informal networks based on trust and community participation thus seems to be a rational strategy when formal channels are not operating and social opportunities are not uniformly available.

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APPENDICES

Appendix 1 Transparency and Corruption Survey (TCS): definitions and descriptives

Variables	Definition	Values	Mean	Standard deviation
Unsatisfied Basic Needs	Number of household UBNs, defined as lack of drinkable water and electricity, and having earth floor in the household residence.	From 0 to 3	0.722	0.962
Social Capital	Index averaging three sub-indexes of participation in open council meetings; participation in social audits and other social control mechanisms; and trust in people.	From 0 to 100	32.44	22.8
Education	Schooling years	From 0 to 18	5.755	3.224
Age	Age	From 18 to 97	38.6	14.4
Gender	Male or female	0 for males; 1 for females	0.496	0.500
Catholic (practising)	Individual reports to practise the catholic faith.	1 for practising catholics; 0, otherwise	0.391	0.488
Catholic (not practising)	Individual reports to be a non-practising catholic.	1 for non-practising catholics; 0, otherwise.	0.232	0.422
Evangelist	Individual reports to be Evangelist.	1 for evangelists; 0, otherwise.	0.281	0.449
Other religion	Individual reports to profess religions other than Catholicism and Evangelism.	1 for professing other religion; 0, otherwise.	0.008	0.091
No religion	Individual reports not to profess any religion.	1 for unreligious individuals; 0, otherwise.	0.079	0.270
Tegucigalpa	Household location in Tegucigalpa.	1 for residents in Tegucigalpa; 0 for residents elsewhere.	0.041	0.199
San Pedro Sula	Household location in San Pedro Sula.	1 for residents in San Pedro; 0 for residents elsewhere.	0.041	0.199
Departmental capital	Household location in departmental capital other than Tegucigalpa and San Pedro.	1 for residents in departmental capitals other than Tegucigalpa and San Pedro; 0 for residents elsewhere.	0.075	0.263
Municipal capital	Household location in a municipal capital.	1 for residents in municipal capitals; 0 for residents elsewhere.	0.250	0.433
Other cities	Household location in cities other than the previous.	1 for residents in other cities; 0, for residents elsewhere.	0.016	0.128
Rural	Household location in rural areas.	1 for residents in rural areas; 0 for residents elsewhere.	0.575	0.494

Variables	Definition	Values	Mean	Standard deviation
Number of children in the household	Number of children in the household.	From 0 to 22.	3.5	2.9
Perception of financial mismanagement of post-Mitch reconstruction	Perception index on financial mismanagement of post-Mitch reconstruction funds in the community in which the interviewee lives. Original values in the 2001 Transparency and Corruption Survey are: 1 if funds were correctly managed; 2, if the management was 'somewhat' satisfactory; 3, if funds were inappropriately managed; 4, if funds were completely mismanaged.	From 0 to 100. 100 reflects a perception of totally mismanaged reconstruction funds.	60.9	48.8
Deficient post-Mitch reconstruction	Perception index on the outcome of the reconstruction process. Answers in the 2001 Transparency and Corruption Survey account for a completely satisfactory reconstruction; a somewhat satisfactory reconstruction; inappropriate reconstruction; a completely deficient reconstruction.	From 0 to 100. 100 reflects that reconstruction was completely deficient.	57.3	21.3
Perception of corruption	Index averaging the level of corruption perceived by interviewees regarding the following institutions and individuals: Congress members; ministers; majors; municipal council members; police officers; teachers; university professors; civil society leaders; bank managers; customs officers.	From 0 to 100. 100 represents the maximum perception of prevailing corruption.	44.3	14.6
Tolerance to corruption	Index on the degree of tolerance reported by interviewees regarding the following acts: Congress member accepts a bribe from a firm; firm bribes a Congress member; a student gives a gift to a teacher; a teacher accepts a gift from a student; a civil servant uses a public car for his/her holidays; a civil servant does not report that another makes private use of a public car; a major lends a municipal tractor after receiving money on his own account; a mother bribes a public employee to obtain a birth certificate; a public employee accepts a bribe to issue birth certificate; a firm alters market prices; an individual uses connections to get a job. Tolerance levels before such acts include the following answers: such acts are corrupt and should be punished; such acts are corrupt but justified; such acts are not corrupt.	From 0 to 100. 100 represent a complete tolerance to corrupt acts.	45.1	12.1

Variables	Definition		Mean	Standard deviation
Good Governance	Perception index on the willingness of politicians to respect law, their zeal for equality in the application of law; their interest in the development of the country; the extent to which Congress represents people's interest; the degree of efficiency of the judiciary.	From 0 to 100. 100 represents a complete recognition of good governance.	29.8	16.0
Belief that neighbours would help if they could.	This variable indicates whether individuals believe that fellow citizens only care for themselves, or, rather, they typically help others.	From 0 to 100. 100 represent the belief that people are always willing to help others.	21.0	40.7
Belief that neighbours would not abuse someone in case of need.	This variable indicates whether individuals believe that most people would take advantage of others in need.	From 0 to 100. 100 reflects the belief that people never take advantage of others in need.	19.8	39.8
Trust in institutions	Index on the degree of trust toward the following institutions: the judiciary; political parties; politicians; National Electoral Tribunal; the military; the Congress; the government; the Comptroller; the Ministry of Finance; the police; the church; the media; municipalities; trade unions; and NGOs. Trust is measured on a scale from zero to seven, where seven reflects maximum trust.	From 0 to 100. 100 reflects complete trust in institutions.	46.7	17.9
Preference for democracy	Index of preference for democracy. A strong preference is considered when individuals both prefer democracy over authoritarian regimes in all circumstances and consider that a participatory system is more democratic than others, ensuring a lifeline level of welfare. A weak preference is attributed to individuals simultaneously preferring democracy over authoritarianism and a lifeline level of welfare over participation. Finally, individuals who prefer authoritarian regimes over democracy are considered to have no preference for democracy.	0, 1 and 2. 0 indicates preference for authoritarian regimes; 1 a weak preference for democracy; and 2, a strong preference for democracy.	0.672	0.736
Ideological radicalism	This variable identifies whether an individual has a radical ideology (either leftist or rightist). A radical ideological position fares one to three, or seven to ten in a scale from one to ten. Someone reporting to pertain to the intermediate position (four to six) in the ideological scale is considered ideologically moderate.	1 for radicalism; 0 for moderate ideologies.	0.635	0.481

Political bias	Index measuring the degree of dispersion from the nation-wide average rate of approval for former President Flores (1998-2001).	From 0 to 100. 100 represents the largest deviation to the nation-wide average rate of approval to former President Flores.	24.3	17.4
Exposure to the media	Index on the exposure to the media, according to whether individuals are in the habit of reading the press, listening to radio or watching TV news.	From 0 to 100. 100 indicates a full exposure to the press, radio and TV.	58.8	33.6

Source: Author from Transparency and Corruption Survey (Seligson 2001)

Appendix 2
Measuring the effects of social capital on household UBNs

A well-known econometric technique, Three-Stage Least Squares (3SLS), allows for the estimation of the simultaneous relation of two variables. In the case of an endogenous relation between two variables and correlations between their error terms, the 3SLS technique is preferred to alternative estimating techniques such as Ordinary Least Squares (OLS) and Two Stage Least Squares (2SLS). In such cases, 3SLS estimates are unbiased, consistent and (asymptotically) efficient (Kmenta 1986). The challenge remains to find good instruments for the trust and participation composite. Individuals' perceptions of corruption, trust in institutions, political values, and exposure to the media, are believed to be strongly associated with levels of trust and participation without influencing the level of welfare. It is difficult to argue that an individual's preference for democracy systematically affects her access to sanitation, for instance. However, exclusion from public services may be expected to shape her political preferences as well as her trust in the government, the political system, and her participatory behaviour in community decision-making.

The 3SLS technique firstly sets a system of structural simultaneous equations for UBNs and the trust and participation in community management (TP) index and all other independent variables, V, X and Z:

$$\text{UBN} = F(\text{TP}, \text{X}, \text{Z}) \quad (1)$$

$$\text{TP} = F(\text{UBN}, \text{V}, \text{X}, \text{Z}) \quad (2)$$

where 'TP' represents both the individual's trust in people and the degree of community participation; 'V' includes values, attitudes, and perceptions that affect the trust and participation composite without affecting the individual's welfare; 'X' refers to personal characteristics such as gender, age, and education of the household head; 'Z' refers to household characteristics such as composition or localisation. Appendix 1 above presents a detailed definition of these variables.

Secondly, 3SLS estimates a two reduced-equation system in which both dependent variables (UBNs and TP) are regressed on all independent variables:

$$UBN = F(V, X, Z) \quad (3)$$

$$TP = F(V, X, Z) \quad (4)$$

The estimation of these reduced equations (3) and (4) adjusts the original distribution of UBNs and TP, obtaining corrected distributions for such variables, as well as a full-information matrix of variance and covariance for the error terms of the UBNs and TP equations. The newly estimated endogenous variables and error variance and covariance matrix are used in the third and final step of the 3SLS procedure to estimate a corrected simultaneous system for \hat{UBN} and \hat{TP} :

$$\hat{UBN} = F(\hat{TP}, X, Z) \quad (5)$$

$$\hat{TP} = F(\hat{UBN}, V, X, Z) \quad (6)$$

As indicated above, the superiority of the 3SLS technique over OLS and 2SLS estimations needs be checked. Implicitly, the specification test for the preferred technique is equivalent to testing for the presence of endogeneity and error correlation. Hausman's specification tests will determine the consistent efficient specification.

Table A2
3SLS estimates of the coefficients of UBN and TP equations

UBN Equation		TP Equation	
Explanatory variables	Coefficients (Std. Errors)	Explanatory variables	Coefficients (Std. Errors)
Education (years of schooling)	-0.063** (0.006)	Unsatisfied Basic Needs	0.072** (0.018)
Catholic (practising)	0.102 (0.081)	Perception of corruption	- 0.103** (0.044)
Catholic (not practising)	0.004 (0.085)	Perception of mismanagement of Mitch funds	-0.027* (0.011)
Evangelist	-0.004 (0.084)	Perception of neighbour's help	0.039** (0.014)
Other religion	0.450 (0.248)	Belief that people will not take advantage of others in need	0.071** (0.014)
Trust and community participation index	-1.162** (0.353)	Trust in institutions	0.003 (0.036)
Tegucigalpa	-0.769** (0.118)	Democratic values	0.014* (0.007)
San Pedro Sula	-0.672** (0.108)	Degree of ideological radicalism	-0.015 (0.011)
Province capital	-0.662** (0.086)	Political bias	-0.054 (0.031)
Municipality capital	-0.431** (0.049)	Exposure to the media	0.130** (0.025)
Other city	-0.563** (0.168)	Age	0.002** (0.0003)
Number of children	0.009 (0.007)	Gender (Female as reference)	-0.024* (0.010)
Insufficient post-Mitch reconstruction	0.504 ** (0.098)	Constant	0.113** (0.044)
Constant	1.298 ** (0.152)		
N. Observations	1852	N. Observations	1852
Specification Test: Chi2	413.9 **	Specification Test: Chi2	152.5**
R2	0.2780	R2	0.1008

Source: Author's estimates of equations (5) and (6) using Transparency and Corruption Survey (Seligson, 2001)
Notes: Effects estimated as re-scaled elasticities, that is, the % impact on UBN and the trust and community participation index, respectively, due to changes of 10% in independent variables. (**) indicates that the estimate is significantly different from 0 at a 99% interval of confidence and (*) at a 95%

