SOCIAL CAPITAL AND SOCIAL ECONOMICS

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1 Introduction

The most general definition of social capital is that "relationships matter". If this were the only insight from the burgeoning literature on the topic, it would not be news to social economists. On the contrary, the insight that social relationships matter to the economy has been the very foundation of social economics for more than half a century – long before the discovery of the social capital concept by economists. Indeed, what has been portrayed as "the missing link" by mainstream economists, is common knowledge among social economists.

True as this may be, such a self-congratulating view about social capital is likely to ignore recent developments analysing in what specific ways social relationships appear to affect economic decisions and processes, and how social economic processes influence the accumulation, distribution, and effectiveness of social capital. Rather than regarding social capital as just another variant of capital and reducing it to a variable in a regression analysis, a small but innovative body of research has developed that is actually unpacking the black box of the connections between social relationships and economic outcomes. Such studies have particularly emerged in the area of development economics. This is probably due, at least in part, to the fact that the World Bank has taken on board the concept a decade ago, which was quickly followed by an ambitious research initiative by the Bank[1]. Another reason why it is particularly in development studies that social capital has received relatively much attention is given by Durlauf and Fafchamps (2004), who state that it has been found useful to address the complex, society-wide problems of poverty in developing countries.

Our objective is to point out not *that* social relationships matter, but *how* they matter to the economy: how can social capital be understood from a social economic perspective? And, subsequently, what does this insight contribute to the vast body of knowledge in the area of social economics? In other words, does the social capital literature, and in particular research arising in the area of development studies, contain value added for social economics, or is it merely old wine in new bottles?

In order to address this question, the article is structured as follows. The next section will start with a brief, necessarily partial, overview of the literature on social capital in

[1] This paper is a shorter version and also leaving out the empirical case studies, of a paper for the

economics, focusing on development. This overview will be followed by a critique and a discussion of the problems, which includes both theoretical and empirical concerns. Section three will lay out an alternative, social economic approach to social capital. The final section will conclude with reference to two case studies, applying the social economic approach.

2 Economic Literature on Social Capital

Theoretical integration

In most of the literature social capital has been integrated into mainstream economic models. Since mainstream economics adheres to methodological individualism, the literature pictures social capital as a property of individuals. As a consequence, social capital effects on communities, organizations, and countries, are deduced from rational choices made by individuals. In the empirical literature, social capital has been captured by measuring trust, group membership, and civic norms[3]. Generally speaking, there are three different ways in which social capital is integrated in the economic mainstream. First, social capital is pictured as a preference in utility functions (Becker, 1996; Glaeser, Laibson and Sacerdote, 2000). Second, it is perceived as an individual resource, owned by individuals or firms (Bourdieu and Wacquant, 1992; Paldam and Tinggaard Svendsen, 2004). Third, social capital is regarded as in instrument to reduce risks. Some of this literature is framed in a bargaining approach (Hargreaves Heap, 1999; Dasgupta, 1999; Paldam, 2000), while others have employed a transaction costs approach (Szreter, 2000; Paldam and Tinggaard Svendsen, 2004).

These three ways in which the mainstream has integrated social capital has met with strong critiques from heterodox traditions. Most of the critiques start with a critical discussion of the name of the concept, and the metaphorical implications of the word ‘capital’. It is precisely the view of social capital as an independent resource of individuals, firms and organisations, which has raised much critique on the World Bank approach to social capital (Fox, 1997; Fine, 1999 and 2001; Harriss 2001). It assumes that social capital may substitute for public goods and government regulation simply by stimulating individuals to engage in clubs, associations, and other forms of engaging with each other. But such a view, the critics argue, ignores persistent power asymmetries that are part of society, resulting in exclusion, inequality, and control in and between groups of people (Field, 2003).

A second critique addresses the instrumental view of social relationships in the mainstream social capital literature. Such a view denies that social relationships are ends in themselves, and do not necessarily (need to) generate economic benefits. In particular, the utilitarian conceptualization of social relationships instrumentalizes human relationships which, in the end may not lead to positive utility effects (van Staveren, 2000). Trust has been defined, for example, as rational expectations of the behaviour of others (Dasgupta, 1999: 330). One of the criticisms of such understanding of trust comes, surprisingly, from Oliver Williamson (1993) who argues that this instrumental view of trust confuses credibility, which derives from calculable risk, with the ethical value of trust. He therefore states that "calculativeness will devalue the relation" (Williamson, 1993: 484) since it "may well be destructive of atmosphere and lead to a net loss of satisfaction between the parties" (p. 481).

A third line of critique on the mainstream use of social capital concerns the empirical literature. One of the most central flaws that has been recognised in the empirical literature is a circular explanation of social capital: a group's success is attributed to its social capital, but social capital is measured by group success (Durlauf, 2002). Often, the measurement of group membership fails to distinguish between types, purposes, and structures of groups as well as power relationships within and between groups (Hoeber Rudolph, 2000. Moreover, as Diani (2004) has suggested, associations may reflect distrust in government and political institutions – associations may be a response to this distrust rather than a reflection of general trust, beyond the boundaries of associations. Another empirical problem is that measuring social capital by aggregating individual group membership ignores the fallacy of aggregation in a social context (Glaeser, Laibson and Sacerdote, 2002; Durlauf and Fafchamps, 2004). Moreover, critical empirical research indicates that some variables may be contradictory, like trust and group membership, or strongly relate to contextual variables, such as trust and inequality, which seem to be negatively correlated, suggesting that inequality and hierarchy should also be taken into account when measuring social capital. When measuring social capital not as group membership but as trust, similar criticisms apply (see, for an in-depth discussion of trust: Nooteboom, 2002). Edwards and Foley (1997) as well as Baron, Field and Schuller (2000) have noted that trust is often affected by power relationships, which result in inequalities having a negative impact on trust. The critiques on the empirics of social capital suggest that a more realistic approach to social capital research would need to unpack the concept, both theoretically and empirically (Durlauf and Fafchamps, 2004).

In conclusion, the critics of the mainstream approach to social capital see the way in which it has been absorbed in the neo-classical paradigm as still not really acknowledging the social in the economy (see for example Elster, 1995; Fine, 1999 and 2001). Fine (2001) and Harriss (2001) do not see much value added in the concept used this way, since they find it moulded into the straightjacket of methodological individualism, ignoring issues of power, conflict and class. Fine therefore prefers to study social, political, and cultural dimensions of economic processes from the perspective of political economy instead, rejecting the idea of social capital altogether. But don't we run the risk of throwing the baby out with the bathwater if we choose simply to ignore the underlying idea of social capital as "social relationships matter"?

3 Toward a Social Economic Theory of Social Capital

In this section we begin to sketch a social economic theory of social capital, aiming to overcome the instrumental view towards social relationships and the circular reasoning in the mainstream social capital literature. In our view, two main pillars of such a social economy theory of social capital are, first, a more nuanced understanding of both the intended and unintended effects of social relationships on economic outcomes, including the potentially perverse effects of power asymmetries. A second pillar involves a more careful empirical operationalization that overcomes circular reasoning through clearly distinguishing between what social capital is, and what social capital does.

To begin with, critical studies of social capital have acknowledged that social relationships are not necessarily positive, and neither are their economic impacts. Social structures inevitably incorporate power asymmetries that lead to processes of inclusion and exclusion, on the basis of certain discriminating criteria, to relationships of authority and control, as well as to inequalities between people that could range from implicit differential treatment to sheer oppression of one group by another. As a consequence, social capital can have a perverse character, involving societal costs, such as undemocratic tendencies, and economic costs, such as rent seeking and discrimination (Baron, Field and Schuller, 2000; Fine, 2001; Molyneux, 2002; Bowles and Gintis, 2002; Taylor and Leonard, 2002; Field, 2003).

The influence of power asymmetries on social capital is complex. Fox (1974: 95) already recognized the inherent contradictions between power and social capital by pointing out that in situations of extreme inequality, trust transforms into accepting one's lack of choice rather than as an expression of a society's social capital: "'We've got to trust them' means in fact: 'we don't trust them but feel constrained to submit to their discretion'. This simply describes, of course, a power relationship." The literature on social capital and power suggests that the relationship is often negative, that is, social capital appears to be less effective in situations of inequality, control, and exclusion (Edwards and Foley, 1997; Baron, Field and Schuller, 2000; Fine 2001; Harriss, 2001; Molineux, 2002; Taylor and Leonard, 2002; Dolfsma and Dannreuther, 2003; Field, 2003). But the relationship between social capital and power is even more complex. At the same time, beneficiary effects of social relationships may be brought about precisely through power asymmetries, not by trust. It is important not "… to ignore the fact that power can be hidden behind a façade of 'trust' and a rhetoric of 'collaboration' and can be used to promote vested interests through the manipulation and capitulation of weaker parties." (Hardy, Phillips and Lawrence, 1998: 65).

In order to bring some clarity on the possible relationships between social capital and inequality, Field (2003: 74) has listed four ways in which they may be related:

- access to different types of networks is unequally distributed
- social capital in networks can be used to disadvantage others
- social capital in groups can benefit members but reproduce inequality or generate unintended consequences for others
- social capital can have a levelling-down effect on people's aspirations, providing disincentives for individuals in a group to save and invest.

As well as power, other elements of social relationships contribute to the creation, distribution, and effectiveness of social capital. These are, among others, solidarity, social cohesion, patronage, domination, prestige, reputation, trust, sociability, and organization (see also the critique of Fine, 2001). As a consequence of this diversity of social relationships underlying social capital, we cannot hope for a very sharp definition of social capital. Nevertheless, our working definition is that social capital can be seen as 'the set of social relationships that enable actors to gain, maintain or expand access to economic resources that may lead to the reinforcement of the productivity of these economic resources.' However, more important than detailed debates on the exact and appropriate definition of social capital, we side with Edwards and Foley (1997: 677), who have stated that social capital points "analytical attention to the embeddedness of cultural factors – such as identities and aspirations – in the meso level social structures such as neighbourhood, church, family, school, and voluntary associations. These are relational contexts in which understanding of how the world works, orientations toward it, and how to engage it are embedded, produced and reproduced in a continuous process of construction, negotiation, and appropriation." Here, the critical social capital literature shows a remarkable similarity with social economics. The critics of the social capital mainstream as well as heterodox economists who interpret, analyse, and re-construct the concept and use it carefully in empirical studies, do appear to rely on insights of social economics – consciously and sometimes, perhaps, not so aware of this tradition of economic thought. In their critical volume on social capital, Baron, Field, and Schuller (2000: 35) have distinguished five characteristics of an alternative social capital approach. In this approach, they conclude, social capital: shifts the focus of analysis from the behaviour of individual agents to patterns of relationships between agents, social units, and institutions, linking micro, meso, and macro levels of analysis, and reinserts morality into economic analysis. Since social economics is concerned with values, social interaction, non-reductionism, and inter-disciplinarity, it does indeed seem to offer a suitable home for an alternative social capital analysis. This can be seen, for example, from the characterization of social economics by Mark Lutz (1990):

> Social economics is an economics centered around and directed by certain basic value premises or ethical postulates. It critically examines the mutual interaction between economic valuations (including observed individual psychological dispositions), economic activity (including work, consumption, technological innovation), and economic institutions (including uncoordinated, free market mechanisms, and financial institutions; ownership of property and rules of appropriation; social relationships of production and the wage system) in the light of those basic value premises. (…) In the process the market is rejected as a final arbiter of social values and instead priority is given to a non-reductionistic, holistic ethos intrinsically related to a conception of society as an organic whole.
>
> (Lutz, 1990: 416-17).

Other social economists have also emphasized the relationship and interaction between the individual and the social, including moral dimensions. For example, Edward O'Boyle (2005) has characterized social economics as being concerned with meeting human material needs, which partly occurs through processes of belonging. In his systematic characterization of social economics, E.K. Hunt (2005) has distinguished three criteria: first, a recognition of the interaction between the individual and social relations; second, a recognition of the normativity of addressing human needs; and third, a concern with institutions and their capacity to address human needs.

Combining the directions for an alternative social capital theory with the heart of the social economic approach, we now continue to present a sketch of a social economic theory of social capital. The starting point for such a theory is an understanding of social capital at the inter-personal level, as arising out of, largely, intentional social relationships, embedded in a community's – moral - values and beliefs, as expressed in institutions. A distinguishing feature of social capital in a social economic approach is that it is not instrumental, or at least, not in the first place. If friendships, for example, would come about in this way, it is very unlikely that they would last in the similar way as they do in the real social world, according to Elster (1983). The basis of social capital, hence, is social cohesion in groups and communities, social relationships in societies, and network relationships between individuals and groups, which express underlying shared – and contested – values, as well as power, and which may have positive as well as negative social and economic effects.

Bonding and bridging social capital

Before we will go into the intended and unintended economic effects of social relationships, we first need to introduce an important typology of social capital. The more recent social capital literature distinguishes between two levels of social capital, referred to as bonding and bridging social capital (Woolcock, 1998; 2001; Putnam, 2000)[4]. What we would like to emphasize about this distinction – and what the mainstream literature does not recognize – is that it reflects a power asymmetry, namely the one of inclusion/exclusion.

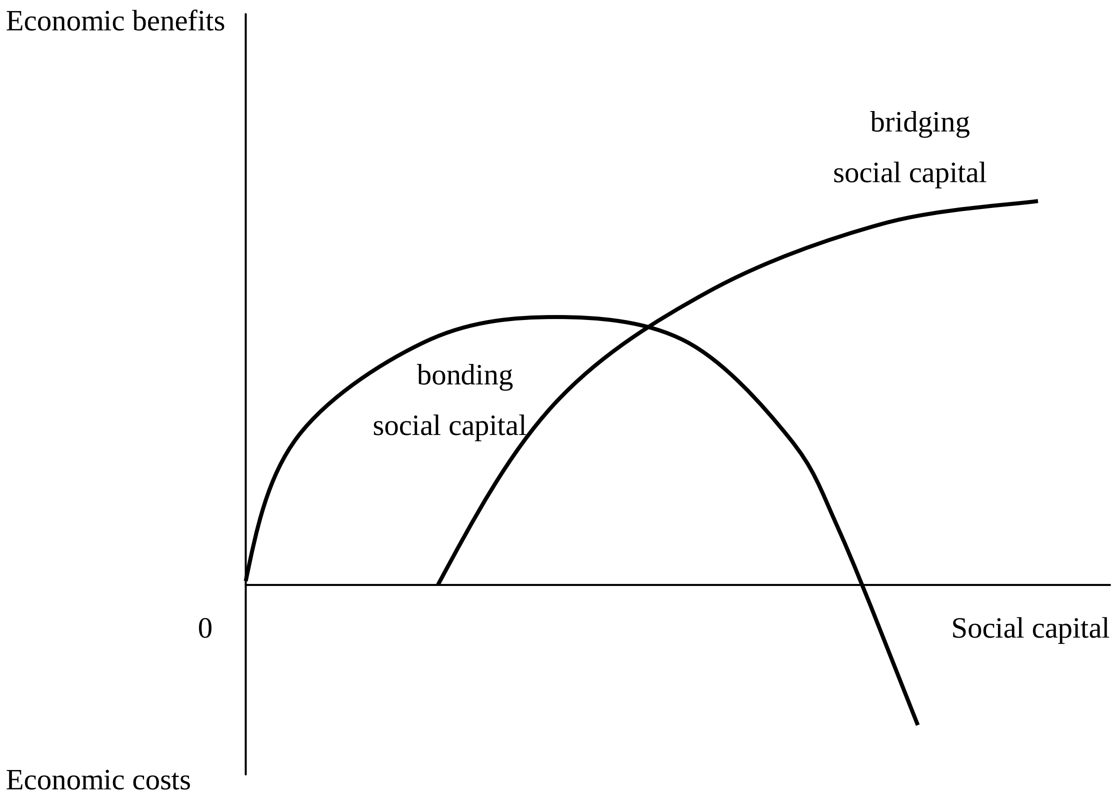
Bonding social capital emerges from strong social ties, which are based on a common identity, for example, family and kinship, gender, ethnicity, religion, or organizational culture. As a consequence of the social cohesion in a group, bonding social capital generates a particular type of trust that is ascribed to the members of the group: “I trust you because you are a member of my clan”. Through norms that groups establish for their functioning, they have the opportunity to control trust to a certain extent, for example, by punishing those who take advantage of the trust ascribed to them. Ascribed groups are relatively closed and exclude others who do not happen to share the same distinguishing characteristic. Hence, bonding social capital may create segmented markets with entry barriers for non-group members (see, for example Bowles and Gintis, 2002). On the other hand, such groups tend to generate high levels of trust, co-operation, and organization, facilitating collective action and learning. As Massimo Repetti (2002) has remarked for various African countries, production is often based on close (family) ties, including patterns of subordination and paternalism, as well as practices of sharing resources and redistribution of profits.

Bridging social capital emerges from weak social ties across society in which individual and organizational behaviour is embedded (Granovetter, 1985), but which is nevertheless held together by sharing some common values[5]. Weak ties exist among people who are heterogeneous, having different identifications, and belonging to different groups. Weak ties can occur horizontally, creating networks between loosely connected individuals and organizations, as well as vertically, in hierarchial relationships. These are much more open relationships, compared with those of bonding social capital, relying on earned trust among loosely connected people rather than on ascribed trust among a homogenous, strongly related group. Bridging social capital generates what is labelled generalized trust, which is based on the belief that everyone shares a minimum set of common values and therefore has a minimum level of trustworthiness to act upon these values. Generalized trust is not blind trust, a belief in the unquestioned goodness of everyone in which trustworthiness is considered to be beyond doubt, but it often includes checks and balances of the others’ trustworthiness, in particular through the assessment of a person’s reputation over time and rewarding trustful behaviour through reciprocity of trust. Bridging social capital enables the emergence of economic transactions between strangers and helps to reduce the inevitable transaction costs arising from incomplete contracts and uncertainty.

The two categories of social capital are not mutually exclusive. An economy needs both types of social capital. It requires a minimum level of bonding social capital for bridging social capital to emerge. Bonding social capital generates externalities for individual agents' behaviour from group practices, creating and reproducing certain social capabilities, for example, the adherence to social norms, which may include mutual help, trustworthiness, sociability, solidarity, loyalty, and responsibility, as well as knowledge sharing. Bridging social capital builds on these social capabilities – it will not just arise by itself in a society without any experience of close bonds between people in families, friendships, associations, and organisations. The relationship between the two, however, is not straightforward: the two levels of social capital seem to be partly trade-offs and partly supporting each other. Weak social ties tend to have the highest economic benefits, as generalized trust connects a broader, more diverse group of people and their human, financial and other resources[6]. Hence, bridging social capital is likely to be more beneficial than bonding social capital, although without bonding social capital there is no fertile ground for bridging social capital to develop. Too much bonding social capital can cause constraints, if it is not complemented by bridging social capital. If people deal only with members of their own group, they run the risk of getting "locked-in" into a very limited economic realm that is not very innovative or efficient in terms of resource allocation. Too much bonding social capital can exclude others from social capital generation; others who have either no groups to share social capital, or who are members of less influential groups with limited access to resources. Moreover, bonding social capital could lead to the formation of cartels between firms; and could allow some groups of entrepreneurs to enjoy more advantages than others, for example, when male entrepreneurs are allowed easier access to and control over credit than female entrepreneurs[7]. Furthermore, boding social capital may enable rent-seeking as it may connect entrepreneurs to government officials belonging to the same social group. In other words, power asymmetries in social capital are often beneficial for those who are in high positions, but can create a net welfare loss for society. Hence, bonding social capital sometimes appears to be perverse social capital: it benefits a privileged minority but creates costs for the excluded. Finally, too much bonding social capital can reduce the generation of bridging social capital when the norms of conformation to the group do not allow for the development of weak ties with outsiders. As Douglas Caulkins (2004), for example, has found in his research in Norway on bonding and bridging ties, the bonding ties of group membership do not necessarily enable the generation of bridging ties across groups. In other words, he found no support for the hypothesis in Putnam's seminal work, that "the greater the organisational density, the greater the social capital and generalised trust" (Caulkins, 2004: 178).

So, a society may economically benefit from a transformation of bonding social capital into bridging social capital, by moving away from smaller group identities toward shared social values allowing for more interactions between a wider variety of identities and group memberships. Figure 1 sketches the likely relationship between social capital and its economic benefits.

Figure 1: Relationship between social capital and the economy



Social capital: what it is and what it does

To arrive at a more robust operationalization of social capital, which avoids circular reasoning, it is important to clearly distinguish between what social capital is, and what it does[8]. Above we already presented our working definition of what social capital is: ‘the set of social relationships that enable actors to gain, maintain or expand access to economic resources and that may lead to a reinforcement of the productivity of these economic resources.’

In terms of ‘what it does’, social capital may lead to a variety of potential economic benefits to actors that are engaged in such relevant social relationships (Dasgupta and Serageldin, 1999; Baron, Field, and Schuller, 2000; Grootaert and van Bastelaer, 2002; Collier, 2002; Flap, 2004). Some of these potential benefits are mentioned more often than others, and seem to draw on a wider common understanding. We have grouped these into three types of economic impacts: (1) reducing transaction costs; (2) enabling and reinforcing of collective action; and (3) generating learning spin-offs. As a result of our argument above on the importance of power asymmetries, one needs to always carefully scrutinize where and when these benefits (may) turn into gains for a small group, at the cost of others, and sometimes even at the cost of inefficiencies for the economy as a whole.

1. Reducing transaction costs

Here, the underlying mechanism of social relationships is the moral value of trust. Trust replaces contracts (in particular in cases where these are incomplete or very costly) and monitoring (in particular in uncertain environments), which saves time and money. Trustworthy behaviour also helps to build a reputation, which is likely to generate even more trust, further reducing transaction costs. Trustworthiness, in turn, helps to reduce the likelihood of free riding in public goods as well as rent seeking and moral hazards. Trust can therefore be understood as "the confidence that parties will work for mutual gain and refrain from opportunistic behaviour" (Cooke and Morgan, 2000: 30). It reduces transaction costs because it enables parties to economize on time and effort, which generates the efficiency of being able to rely on the word of one's partner. An interesting empirical study by Fafchamps and Minten (1999) on the benefits of social capital for agricultural traders reveals, for example, a reduction in transaction costs among traders through trust in interaction, access to credit, information on prices, and economies of scale in quality control. But the economic effects of reducing transaction costs may be negative for the economy as a whole. For example, the elite may succeed in tax evasion and evading democratic procedures by bribing government officials. This certainly reduces their own costs and hence provides benefits, albeit at a cost to the economy at large.

2. Enabling and reinforcing collective action

In this case, the underlying mechanism of social relationships is solidarity and co-operation. Co-operation between individuals and organizations creates economies of scale, and helps to provide and manage semi-public goods (outside the state) or enforces the supply of public goods by the state. In a context of uncertainty, trust reduces the risks of cooperation and discloses possibilities for action which would have been unattractive otherwise (Cooke and Morgan, 2000: 30-31). Such trust-confirming co-operation can also enhance bargaining power in the market, leading to increased access to, or better negotiation terms in markets. But collective action can also have negative economic impacts. For example, processes of exclusion by a group could lead to market segmentation, setting up entry barriers for certain groups in, for example, the credit or labour market. Alternatively, collective action could result in market power in the case of cartels. Again, these benefit a small group at the cost of others, such as the unemployed in the case of labour markets.

3. Creating learning spill-overs

Here, the underlying mechanism of social relationships is social cohesion and sociability. By working together, workers learn from each other on the job. This process is stimulated in a setting of teamwork, where new team members learn on the job under the guidance of workers who are more experienced. A mobile workforce, in particular when it is a specialized workforce possessing special skills, helps to transmit human capital through learning from one company to another – a feature of human capital deepening that is also drawn upon in endogenous growth theories. Another form of learning spill-overs is through collective learning by jointly acquiring or quickly transmitting new technology, for example, through business networks (Porter, 2000). In both ways – by increasing the average level of human capital and transmitting new technology – social cohesion and sociability enhance total factor productivity. The transmission of information is also helped by trust, which helps to overcome transaction costs in the transmission process, as participants in high-trust relationships tend to have a greater capacity for learning because they are party to thicker and richer information flows (Cooke and Morgan, 2000: 31). But learning spill-overs may also be affected by power asymmetries. It is quite likely that spill-overs will occur much less, or not at all, in a work environment with high inequality. In such an environment, the opportunities and social incentives to learn from other entrepreneurs or workers are limited. Besides, collective learning in a sector will be constrained by high inequality, as not all firms will be allowed access to the collective learning process.

The above section has sketched the contours of a social economic theory of social capital, but with many question marks and blank spots. It is no more than a beginning, which, hopefully, could develop into a more coherent understanding of the role of social relationships in the economy than the mainstream theory of social capital that faces such serious problems, as discussed in section two.

4 Old Wine in New Bottles?

In this final section we aim to draw some lessons from our initial attempt to develop a social economic theory of social capital. These lessons can be split up in two parts. First, what are the lessons we can learn about social capital from approaching this from a social economic perspective? And, second, what insights does this alternative approach to social capital, in comparison to the mainstream social capital literature, provide for social economics? This concluding section draws on two case studies, not reported in detail here, in which we have applied our social economic approach to social capital. We have looked at the role of social capital in development, and specifically in small and medium scale enterprises in the footwear industry in Ethiopia and Vietnam. The details of our method and results can be found in the published report on the project. (Knorringa and van Staveren, 2005)

A social economic understanding of social capital

The social capital approach outlined here substantially differs from the mainstream one, both conceptually as well as empirically. Our case studies have indicated that all three mainstream variables for the measurement of social capital – the WVS trust question, associational membership, and civic norms - do not appear to be very helpful for an adequate understanding of what social capital *is*, nor for comprehending what it *does*.

First, when we asked the WVS trust question, respondents found this by far the most difficult question to answer in our questionnaire. Respondents frequently stated that their response to this question obviously would depend on the type of other person. In other words, they indicated that trust is not simply an individual characteristic or resource, but a value that is established in a relationship, in which it matters who the other is. As a consequence, the general trust indicator appeared not to be statistically significant as a determinant of social capital. We followed the general question up with a more specified set of context specific trust questions. The composite indicator for trust based on this set of questions was, in the case of Vietnam, statistically significantly related to performance.

Second, although context-dependent trust appeared to provide a more meaningful indicator as compared to the WVS trust question in one of the two countries, a more important finding is that our study suggests that trusting *attitudes* are less important in assessing the economic impacts of social capital than measuring what entrepreneurs *are actually doing* (in terms of investing in networks, or trying to selectively share and co-operate). In the case of Vietnam, all indicators for the economic impacts of social capital are statistically significantly related to performance, upgrading, and to all firm classifications.

Third, the next mainstream variable we used was associational membership, for which we first measured membership of business associations. Again, this appeared not only to be of limited relevance, due to limited formal memberships in one of the two countries, but associational membership appeared also not to be significant. Instead, we measured informal relationships through the extent that entrepreneurs actively participated in local networks in each sector. These appeared to be relevant indicators, especially in Vietnam but also to some extent in Ethiopia.

Fourth, rather than adherence to norms, we distinguished between bonding and bridging social capital. Our case studies confirm the hypothesis that entrenched bonding social capital can inhibit bridging social capital from developing. Moreover, our case studies underline that for a next phase in development, both in Ethiopia and Vietnam, constructing bridging social capital is a key challenge. Certain minimum levels of bonding social capital are a necessary but not sufficient condition to face this challenge. This also requires a more enabling environment for private sector development, an environment that lowers macro-economic uncertainty and volatility, and with credible sanctions on opportunistic entrepreneurial behaviour.

Fifth, we added the dimension of power asymmetries to our measurement of social capital. These power asymmetries appeared to play a not unimportant, but rather complex role. The Vietnam case clearly showed how control by others over a value chain constrains firm upgrading, and that exclusion from political alliances prevent small scale entrepreneurs to become more successful. The Ethiopian case showed static benefits of ethnic and regional concentration in the footwear sector in terms of access to domestic buyers, suppliers and human resources. But this bonding social capital was also likely to be responsible for dynamic disadvantages: the strong ethnic bonds within the informal sector may press for sharing the little earnings there are in the informal sector. In the small formal sector the main family based groups fight each other for good access to government and try to go it alone in the international market, which is a self-defeating strategy given their small size by international standards.

Finally, the above conclusions lead to a main conceptual point. They suggest that social capital cannot be regarded as an individual characteristic or resource, that it is better not measured by the WVS trust question, formal group membership or civic norms, and that it is affected, positively and negatively, by power asymmetries. In macroeconomic terms, this suggest that social capital cannot be reduced to a single independent variable next to a set of common economic variables in a growth equation, as is common in the mainstream approach. Instead, social capital is likely to affect every single other economic variable in a production function as a productivity scale factor for each individual production factor, representing the (in)efficiency impact of context-specific social capital. This observation is also in line with our working definition of social capital, which stressed how social capital influences both access to and productivity of other economic resources. Moreover, this feature of the causality of social capital is in the alternative social capital literature sometimes more loosely referred to as ‘lubricant’ (Field, 2003: 63), or ‘social cement’ (Repetti, 2002) in economic interactions, influencing the efficiency of these interactions, partly through intended actions such as collective action, and partly through externalities from social relationships.

What does this contribute to social economics?

The second question to be addressed here concerns not our understanding of social capital, but whether there is any value added from our suggested approach to the study of social capital for social economics in general. We do think that there may be some value added, although this research is still very tentative and much needs to be explored yet. What we found illuminating in our struggle with the mainstream literature and subsequently, doing our empirical case studies through a trial-and-error process of developing alternative indicators and social capital relationships, was the many ways in which it appeared feasible – some ways we followed, others not – to do empirical research on economic impacts of social factors in a largely non-instrumental way. We did not need utility functions, nor assumptions that entrepreneurs always act in their self-interest. We did not have to picture functionalistic relationships in statistical equations but could instead get some basic picture of meso-level interactions between actors, including their beliefs and values. In other words, it appeared possible not to simply make assumptions about agency and types of relationships, but to actually picture, measure, interpret, and intuitively understand, at least to some extent, the complex relationships between social relationships and economic performance in a particular sector of the economy, in two widely differing country contexts. What we found was not just that relationships matter, but *how* they matter, in a substantive way, not by referring to a black box variable of social capital, but by unpacking this into types and extent of social relationships, specific intended and unintended economic impacts, and subsequent effects upon firm success. Of course our case studies are merely some incomplete examples, from which no strong conclusions can be drawn. But we think that the alternative approach to social capital, drawing on social economics, is a bit more than old wine in new bottles: it may well offer some concrete, contextual methodology for social economics for the study of meso-level phenomena.

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Notes

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[1] See World Bank (1998) and the following website: http://lnweb18.worldbank.org/ESSD/sdvext.nsf/09ByDocName/SocialCapitalInitiativeWorkingPaperSeries

[3] Trust is almost exclusively measured in surveys with the World Values Studies (WVS) trust question: "Generally speaking, would you say that most people can be trusted, or that you can't be too careful in your dealings with people?" Information about the World Values Studies can be found at the following website: http://www.worldvaluessurvey.com/

[4] Woolcock's differentiation is slightly different because he adds a third type, namely linking social capital, which comes close to what in the heterodox literature has been understood as bridging social capital. His notion of bridging social capital is an intermediate step between bonding and linking social capital (see Woolcock, 2001: 13-14).

[5] It is important to note that the word 'weak' should not be interpreted negatively here, since, paradoxically, the weakness in the ties is the strength of bridging social capital: social relationships are voluntary, continuously leaving open the option of breaking up or changing one relation for another, without strong social sanctions.

[6] Durlauf and Fafchamps (2004) give a partially different reason for the great efficiency gains from general trust, compared to ascribed trust. They argue that generalised trust is established faster and more cheaply. This is questioned, however, in literature emphasizing how difficult it is to move from ascribed to generalized trust.

[7] See for example research on social capital and gender inequality for female entrepreneurs in credit through group-lending: Linda Mayoux, 2001; Katherine Rankin, 2002; Maxime Molineux, 2002. See also a discussion of gender inequality in relation to social capital by van Staveren (2003).

[8] For, example it has been suggested that trust may be more appropriately regarded as an *outcome* of social capital rather than a *determinant* of it (Field, 2003: 65 and 125).