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# SOCIAL CAPITAL, INSTITUTIONS AND POLICYMAKING

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# Social capital, institutions and policymaking

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“Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being. Thus it is on the one side a study of wealth; and on the other, and more important side, a part of the study of man. For man’s character has been moulded by his every-day work, and the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideals.”  
Alfred Marshall, *Principles of Economics*, 1920

## Abstract

Economic processes, consisting of interactions between human beings, exploit the social capital of persons endowed with specific cultures, identities and education. By taking into account this complexity, we focus on the role of institutions and policymaking in the building of social capital and its relevance to the fulfilment of their objectives. Social capital, however, is elusive and has several dimensions with which to interpret its multifaceted functions in economics and society. We cannot forget that social capital is sometimes even undesirable for society, for instance when unethically used. Even so, it is widely accepted that social capital has stable and positive effects.

**Keywords:** social capital, institutions, policymaker, education

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# 1 Introduction

Well-being is pursued through individual and social action. The social dimension is therefore a decisive economic force. Social capital, contributing to the capacity of individuals and groups to work together for a common goal, is however often overlooked by economic theory. Neoclassical economic models are sometimes too harsh in depicting human behaviour, choices and dynamics, and can result, at best, in fanciful economic theories and, at worst, in wrong policy prescriptions and forecasts. A feeling of incongruity may arise from the application to human behaviour of the logic of the *homo oeconomicus*. Indeed, economic processes consist of interactions between human beings and are shaped by the social capital of persons endowed with specific identities.

Social capital evolves slowly, or, better, it co-evolves with all the economic institutions and organisations in which it is embedded. Though not always positive, social capital can often solve and reduce both government and market failures. This is why the policymaker should be aware of social capital and the constraints it imposes on the achievement of social goals. One role of policymaking is to build positive social capital so as to reach the policy objectives. A correct education strategy and human capital investment in general are viable tools that complement and magnify social capital's effect on the economy.

To correctly address the relations between social capital, institutions and policymaking, it is important to stress that although social capital can be enhanced, it is also highly elusive. On the one hand, even though social capital should be used by institutions to achieve their goals, it cannot be disposed of as if it were physical capital. On the other hand, even though social capital is not easy to influence, the mass of social capital can be

increased in the long run by far-sighted and patient policies.

The remainder of this article is structured as follows. In Section 2, we explore the dimensions of social capital. We then consider the intertwining of social capital, institutions and organisations, and investigate the role of social capital in economics. In the second part of this paper (Section 3), we introduce social capital to the collection of constraints and aims of the policymaker. The active consideration of social capital as a policy resource gives some guidance on the proper course of action to reach the policymaker’s objectives, among which we stress education as an important co-objective to pursue. Finally, Section 4 provides some concluding remarks.

## 2 The dimensions of social capital

Given its multidimensionality, social capital can be defined in many ways. Indeed, there is still no universal agreement on an exhaustive definition of social capital. It is interesting, however, to at least circumscribe this concept, starting from its characteristic dimensions. Table 1 summarises several dimensions of social capital explored by the literature that will be presented in what follows.

Table 1: The dimensions of social capital

Domain	Dimensions	Effects
cognitive	mental processes, concepts, ideas	language, stories, culture
relational	trust, norms, identity	relational ties
structural	organisations, institutions, leadership	bonding/bridging structure

Social capital has different dimensions affecting economics and society: cognitive processes of individuals shape the relationships between them and produce the structure of the community. First, social capital refers to the *cognitive* domain, which involves mental processes, concepts and ideas. Indeed, social groups have shared mental processes embedded in their lan-

guage, stories and culture. The resulting articulated value system, intimately related also to religious principles, has a profound impact on economic development (Weber, 1904; Guiso et al., 2003). Second, the *relational* aspect of social capital pertains to trust, norms and identity. These dimensions deeply impact on relational ties, resulting in socially complex communities composed by strictly idiosyncratic characteristics. Third, the *structural* domain of social capital is important for the understanding of organisations, institutions and leadership, since it profoundly shapes social relations. The bonding/bridging structure of social capital relates to this dimension.

Many kinds of capital overlap to a certain degree, and their co-evolution may help guarantee the proper development of a community. In addition to physical capital, all other forms of capital usually have a positive relation with social capital and they are accessed through it. Community membership gives access to pooled resources, but usually high quality ties are necessary. Human capital as well is accessed by participants to a community in a preferential way. Ethnic or cultural capital is a resource formed by language, accent, manner and religion rituals. Usually it is positive but there are also cases in which cultural capital has a negative influence. For instance, cultural capital can be an obstacle to the process by which social capital is converted to economic wealth when it is not supportive of entrepreneurship (Light and Dana, 2013).

Identity capital or motivational capital is another important form of (social) capital. From identity there comes a sense of belonging. When individuals experience an identity, they feel emotionally and cognitively tied to their organisation. As a result, identity is important in economics because it can solve problems, such as incomplete contracts, whenever effort is hard to

observe or to reward (Akerlof and Kranton, 2005). Monitoring (to achieve completeness of information) and identity (to exert effort by intrinsic values) have a high degree of substitutability to take into account: monetary incentives (i.e., extrinsic motives) crowd out identity. Economists' language is the language of incentives: we offer something valuable, in order to influence and change the choice of the subject. However, as Grant (2002) states, an incentive scheme always hides a relation of power. Finally, identity is not always positive and can pose problems. For instance, it can be detrimental when experienced with a working group and not with the working group's organisation as a whole.

Social capital concerns, for instance, tangible and virtual resources which are collected by parties through social structure and which promote the achievement of social goals. The set of resources building social capital are those embedded in relationships: the flow of information, the influences on the agents who play a critical role in decisions involving the individual, the individual's social credentials, the reinforcement of identity and recognition (Lin, 2002). Concepts often paired with social capital are trust and norms. These concepts are self-reinforcing and cumulative, in the sense that they are based on a self-sustained process of accumulation. Social capital can be built in childhood, without sacrifice and calculation, or in an optimising framework as a result of individual decision-making processes, with conscious calculation taking into account opportunity costs (Rupasingha et al., 2006).

As mentioned above, a fundamental dimension of social capital is trust. A lubricant of the social system (Arrow, 1974), trust can be defined as the willingness to permit the decisions of others to influence our welfare (Sobel, 2002). Notwithstanding its importance in the composition of social capital,

trust does not coincide with social capital, particularly at the individual level (Glaeser et al., 2002). Trusting other individuals brings positive externalities to them, therefore, the level of social capital of individuals prone to trust others to a large extent can be lower if they are not reciprocated with the same amount. Trust can be in competence and in intentions (Nooteboom, 2007). On the one hand, others can have good intentions towards us but not the competence to help us effectively. On the other hand, others can have the competence and the instruments to affect positively our conditions but lack the intentions to do it. Trust can change and be increased in different ways, not always idyllic. For instance, in a situation in which individuals have different opinions and diverge on the proper course of events, if disputes are solved by *voice* and not *exit*,<sup>1</sup> trust tends to deepen. Trust also has a significant relation with *control*. We usually think about trust and control as substitutes, meaning that once trust is built, control is no longer necessary. However, some forms of control can also complement trust, activating a self-reinforcement of these behaviours (Nooteboom, 2007).

Two types of social capital are commonly distinguished (Burt, 1982; Coleman, 1988; Putnam, 2000). First, *bonding* social capital refers to ties internal to a social group, which are stronger and common in denser networks. Second, *bridging* social capital refers to external ties, which are weaker and are common in larger networks. The former kind of social capital is not always to be preferred to the latter. Too much bonding social capital stifles innovation and adaptation, generates monopolies, collusion and cartels (Granovetter, 2005). In addition, weaker ties leading to larger networks are better for sharing information than stronger ties in denser networks having a

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<sup>1</sup>If individuals express their personal thoughts and even dissatisfaction, they exert the *voice* option; if individuals leave the organisation or the dispute, they exert the *exit* option (Hirschman, 1970).

higher degree of overlapping information. Distinguishing between these two types of ties is useful in many fields of study, such as the theory of the firm. For instance, in order to develop a well-functioning firm, a dual network of both weak and strong ties should be maintained. With the right balance of the types of ties, the actors present in a firm share common goals and maximise information diffusion.

The next two subsections, to enrich the presentation of social capital, discuss how deeply institutions and individuals affect its building and its role in economics.

## **2.1 Institutions matter**

Institutions substitute and complement social capital, meaning that, depending on circumstances, they take the place of social capital and/or they interact with and exploit it. Indeed, the same stimulation does not always produce the same effect in the economy. In social contexts, institutions affect and modify the outcome of a policy, and, in more generality, of a behaviour. They change in relation to the existing social capital and co-evolve with it (Aoki, 2007) in positive but also negative ways. Whenever agents recognise fair institutions, they stimulate positive conformations of social capital.<sup>2</sup> Trust and good institutions reinforce each other.

Policymakers should consider not only such intricate feedback-type interconnections existing in a given period, but also their evolutionary dynamics. Indeed, institutions are the result of a historical process: they are, together with social capital, the legacy of history. In particular, social capital is usually linked with the concept of informal institutions. In his Nobel lecture, North (1994) defined institutions as a combination “of formal constraints

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<sup>2</sup>A typical example of the effect of good institutions on social capital is the increase in entrepreneurship (Percoco, 2012).

(e.g. rules, laws, constitutions), informal constraints (e.g. norms of behaviour, conventions, self-imposed codes of conduct) and their enforcement characteristics". Industrial clusters, which are sensitive to incentives other than those explicitly written in contracts, have different levels and typologies of social capital. Formal and informal institutions contribute to the construction of social capital. In addition to their peculiar characteristics, their spatial localisation is a fundamental factor to take into account. Interestingly, Tabellini (2010) argues that informal institutions may help explain why even under the same formal institutions, regional inequalities may be highly persistent.

In most impersonal exchanges, contemporary industrial economies are characterised by several players, with little information about the other parties in the transaction, and with strategic interactions or games that are often not repeated, or do not have a precise end. These conditions do not allow cooperation to be sustained. In contrast, in small-scale societies with personalised exchange, cooperation is pursued more often than competition. However, the creation of effective economic and political institutions in contemporary economies could involve the alteration of the benefit–cost ratios in favour of cooperative solutions. If this is the case, the consideration of the institutional setting cannot be omitted in analytical models.

Theoretical dichotomies are useful to mark differences and obtain straight interpretations. However, theories are seldom in total contrast: they share various points. For instance, most holists accept the theory that only individuals, not institutions, can be agents of change, while most individualists are not in contradiction with the idea that society profoundly affects the individual. During the 1980s, Douglass C. North explored long-run institutional change. Separating institutions from organisations, he defined the

former as the rules of the game and the latter as the players. Groups of individuals with similar objective functions compose organisations,<sup>3</sup> which become agents of change while pursuing their objectives. Indeed, while pushed by competition, organisations try to change the institutional framework to boost their competitive position. The vehemence of such competition will affect the rate of institutional change, and the perceptions of the actors involved will influence the direction of change. Ultimately, the opportunities resulting from the institutional framework determine the very existence of the organisations that compete to survive.

Individuals create, out of their actions, society. But, to a significant extent, the social situation creates the individual. Individuals develop their habits and routines and accept social conventions and norms. If we believe that individuals, acting in their self-interest, unintentionally give rise to social rules, we would imply an invisible-hand approach to institutions rather than a collectivist one. The belief that spontaneous institutional developments and changes would be consistent with the economic and social system has a deep impact on the position in the debate on interventionism versus non-interventionism in the economy. Nevertheless, economic efficiency and social benefits, which should guide interventionists, are difficult to define in the context of an evolving institutional system.

## **2.2 A role for social capital**

Social capital is useful in many respects. It has a role in solving problems which contracts and institutions cannot efficiently deal with. Table 2 summarises several contexts, presented in the following, in which social capital gains relevance and can play a role.

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<sup>3</sup>For instance, firms, unions, cooperatives, political parties, regulatory agencies, churches, sport associations and clubs.

Table 2: Social capital roles of relevance

Context	Role of relevance
market and government failures	solution to free-riding, public goods, externalities and incomplete information
communities and networks	punishments to enforce norms and equity access to external or network resources trust and reciprocity different price of a good/service depending on network position network externalities status and hierarchy knowledge sharing
social contracts	rules of conduct reciprocal obligations low transaction costs generalised reciprocity civil commitment responsibility for action productivity
bounded rationality	tacit knowledge, informal rules and cooperation attenuation of coordination failure contrast to individuals' opportunism in presence of specific investment
costs of acquiring information and making decisions	psychological constraints social norms, beliefs and desires habits, rules of thumb and rationality as gradual adaptation over time shaping of preferences and goals
negative effects for the action of insiders	less individual freedom of action unethical uses by criminals, terrorists and gangs protection of mediocrities, lessening of objectivity mental conformity, inhibition of escape from failing partners

Several market and government failures can be addressed by social capital. Issues like free-riding, public goods, externalities and incomplete information are better solved at the community level (Bowles and Gintis, 2002). In labour markets, for instance, information is incomplete and therefore recruiting often happens from within homogeneous social categories. Since these categories spread social norms and monitor members, employers can obtain loyalty and social control within the employees' network.

A community is a group of people who interact directly, frequently and in multi-faceted ways (Bowles and Gintis, 2002). In communities, there is a strong reciprocity, meaning that people are willing to privately bear the costs of punishments to enforce norms and equity (Fehr and Gächter, 2000). Several experiments dealing with social capital confirm that trust and reciprocity are basic elements of human behaviour (Berg et al., 1995; Bigoni et al., 2015; Ostrom, 2014) and find that the degree of social connection positively correlates with trustworthiness (Glaeser et al., 2000). Communities, however, are necessarily characterised also by their small scale and homogeneity, which impede diversity. Public intervention should take into account all these aspects, understanding the limits of communities but also that it is possible to solve public and market failures at the community level.

Communities are social networks, for which the embeddedness of economic actions permits access to external or network resources. The denser the social network, the clearer and more firmly held the norms governing behaviour. Network representation is therefore useful to describe and explain communities. For instance, network representation may be used to understand the kind of links connecting the nodes. Whenever two distant parts of the network are connected, we speak about bridging. In this case, the nodes connecting the distant parts of the network are key individuals

dealing with structural holes. Sometimes these individuals are entrepreneurs who generate profit thanks to their position and connections. Social capital differs depending on the number and kind of links. Long-lasting relationships, represented through network participation, are based on reciprocity. The economic consequences of social networks are many, as for instance when the price of a good/service changes depending on an individual's network position, or in other words, the individual's social capital (Granovetter, 2005).

Network externalities<sup>4</sup> arise in these contexts. If an individual enters a network, this will bring positive externalities to individuals connected to the entering individual but not yet connected to that network. Externalities can also be negative, as for all the outsiders of the network whenever the network absorbs common resources. In a network, ties are represented by simple links; but ties are of different kinds and importance. Granovetter (1973) highlights that the strengths of a tie in a social network depends on factors such as investment of time, emotional involvement, intimacy and reciprocity. Status, that can be defined as a social influence enabling rewarding and punishing others, is also a form of social capital. Indeed, individuals invest in social relations (ties) with expected returns (income) in the marketplace and social status positively affects economic standing (Lin, 2002).

From a topological point of view, horizontal networks are better for knowledge sharing. In contrast, vertical networks produce a clear hierarchy between individuals. Hierarchy is often considered to negatively affect socioeconomic variables like knowledge diffusion, trust and reciprocity. For instance, trust is lower in countries with dominant hierarchical religions (La

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<sup>4</sup>In the presence of network externalities, the more widespread and compatible a good, the higher its value. In this situation, economies of scale and problems of lock-in, path dependence and multiple equilibria emerge.

Porta et al., 1996). However, we can also think of situations in which a clear hierarchy of competent and influential individuals can have a positive impact on the social capital embedded in an organised and efficient social network.

Social contracts are valuable since they affect the productivity of individuals and organisations. Indeed, social connections yield rules of conduct: when social networks are associated to reciprocity norms, social capital is formed because reciprocal obligations lessen the incentives for deceitful and opportunistic behaviour. As a consequence, transaction costs are low in the presence of mutual trust (Fukuyama, 1995). As Putnam (2000) points out, “a society characterised by generalised reciprocity is more efficient than a distrustful society, for the same reason that money is more efficient than barter”. Civil commitment and social capital, implying reciprocal obligation and responsibility for action, are particularly important for productivity when it comes to complex tasks, since tacit knowledge, informal rules and cooperation are pervasive wherever such tasks are performed.

Because of the limits of people’s abilities to comprehend and compute in the face of complexity and uncertainty (that is, the boundedness of rationality), heuristics and suboptimal equilibria arise. Neoclassical instruments are not able to cope with this kind of problem. Instead, social capital can improve individuals’ economic situation and sustain a *good* equilibrium for them. Indeed, all the situations plagued with coordination failure may improve with higher levels of social capital. Moreover, opportunism can be very detrimental in the presence of *specific* investment. Again, social capital is well suited for dealing with this kind of problem. The same relationships at the basis of social capital are, by definition, specific. Indeed, social capital cannot be traded, like every asset that is entirely specific (Pattitoni and

Savioli, 2011).

Every actor in the economy incurs the costs of acquiring information and making decision, and faces psychological constraints and the existing social norms. Individuals are often rational in an adaptive sense: if conditions change or superior alternatives become available, individuals will adapt their behaviour, establishing new satisfactory habits and routines. Social norms, that specify many of the goals of action, would be accommodated accordingly. In this regard, Bicchieri (2006) states that social norms motivate action, but only indirectly. The direct, underlying motives are the beliefs and desires that support the norm. Indeed, the particular form of bounded rationality that characterises individuals depends on the social context in which they live.

If we accept that decision-making costs and psychological constraints restrict the role of rational evaluation and promote habits and rules of thumb, rationality is more a matter of gradual adaptation over time than of instantaneous optimisation. In addition, social norms constrain individual action and shape preferences and goals. The endogeneity of preferences to social capital (Sobel, 2002) has crucial implications for the assumptions in economic models. We can say that social capital changes what individuals prefer, but also that preferences determine the amount of social capital accumulation.

We cannot forget, finally, that social capital is sometimes undesirable for society. The most common problem is for outsiders that face the negative effects of the actions of insiders. For instance, the social capital of insiders may restrict the initiative of entrepreneurs outside the group (Westlund and Bolton, 2003).<sup>5</sup> But insiders lose individual freedom of action as well,

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<sup>5</sup>For the same reason, bilateral agreements in trade can be detrimental to the large community of countries, since outsiders lose market share. Therefore, multilateral agreements

because of the rigid enforcement of social norms. Social capital itself may be used for unethical aims by criminals, terrorists and gangs. It can protect mediocrities, reduce objectivity, impose mental conformity and inhibit the escape from failing partners.

### **3 The policymaker**

On the basis of the above discussion, social capital represents a relevant factor to consider by the policymaker. In what follows, we stress that it constrains and influences public policies and their outcomes.

Welfare functions require explicit value judgements and interpersonal comparisons that make many economists uncomfortable, leading to the lack of a trivial solution to the problem of social welfare. In addition, we cannot be satisfied with an overoptimistic picture of government's always acting in the social interest (Putnam et al., 1994). However, the market does not guarantee efficiency either, nor it is free of coercion. The performance of actual markets and governments has to be continuously supervised, analysed and regulated to meet changing economic and ethical claims, since there is no a priori guarantee that economic adjustments are in the best interest of society.

Whenever we agree on a shared set of objectives to pursue through public action, we ask the policymaker to act in accordance with them in the most efficient and proper way. It is, therefore, important to better define the role of policymaking. The relevance of proper policy intervention is stressed by economic theory, as when, if cooperation is intense and complementarities widespread, multiple equilibria exist, some of them with low levels of social capital.

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are preferred to bilateral agreements in order to develop a common market.

Bernheim and Bagwell (1988) take into consideration the effects of public policies in relation to social capital. In their framework, family linkages produce complex networks, and individuals pertaining to families belong to many dynastic groupings. Therefore, equity issues of public policies are strongly affected when side transfers of valuable resources happen between individuals pertaining to different families, all along these complex networks. Many neutrality results, like the irrelevance of public redistributions, distortionary taxes and prices, are implied by the complex proliferation of linkages between families. All policy-related results based on the dynastic framework, including the Ricardian equivalence, are affected by the actual structure of family linkages.

Given their role, policymakers should try to enforce policies supportive of social capital formation, as with all forms of capital, and also to exploit the existing social capital in order to achieve their goals. Many studies of social capital assume it as given and fixed in its amount. However, social capital can change in the long run. Its evolution is slow because it is based on norms, that is, on views as to how people should behave, which depend upon their particular situation.

Social capital is, therefore, indispensable in the policymaker's portfolio of both policy tools and objectives. No economic policy that wants to succeed in a specific territory can ignore the amount and quality of locally embedded social capital.

### **3.1 Social capital as a policy resource**

Among the many definitions of social capital, the World Bank's definition is that of "enduring social relationships of trust and reciprocity that enhance a group's capacity to coordinate actions of its members as they work toward

a collective good”. Since the aim of economic policy is exactly to better coordinate the actions of individuals toward a collective good, social capital is a *natural* policy resource. Table 3 summarises social capital as a policy resource able to target particular aims that are presented in the following.

Table 3: Social capital as a policy resource

Aim	Policy resource
collective good	coordinate actions
culture of trustfulness	natural policy resource
against risk of social impoverishment	
material/relational needs	forms of social participation
time-intensive activities	
avoid social poverty trap	
attenuation of the problems coming from population heterogeneity, in- and out-migration, social segmentation	social interaction and shared interests
improved voting levels	
active membership	involuntary policy resource
public health	
community activity	
development projects	
reciprocity from others	
virtuous behaviour	conditional cooperation
social status, claim to leadership	
predictable social capital useful basis for policy initiatives	
market value preferences (for instance, entrepreneurial propensity, wage levels)	immigration policy resource
non-market value preferences (for instance, culture charm)	
public access to energies enclosed in social capital	heterogeneous and somewhat volatile policy resource
traditional social norms like obedience and religious faith	
trust and cooperation	
efficiency of a policy	
commitment to the organisations’ values and benefits	neutral resource
education	

The positive spillovers of social capital are numerous. A culture of trustfulness brings benefits to everybody. Empirical research shows that trustfulness is positively related to infant survival, education, and even efficiency, firm success and GDP growth. The latter is a well-established part of the

political agenda of many countries. However, some issues concerning economic growth arise when we focus on the different forms of social participation, as developed economies undergo the risk of social impoverishment (Putnam, 2000). In addition to material needs, individuals have substantial relational needs, the satisfaction of which requires the involvement of other individuals, that is, some forms of social participation. Nonetheless, developed economies have reached a high level of satisfaction in terms of material needs, while relational needs are sometimes overlooked. In more detail, economic growth increases pressure on disposable time, generating the substitution of time-intensive activities by time-saving activities. Since most of the activities involving social participation are time-intensive, economic growth generates an impulse toward private (non-social) activities. As a result of the shrinking of social participation, a social poverty trap (namely a Pareto-dominated equilibrium of the economy) can arise (Sacco et al., 2006).

Several factors may contribute to a further decrease in the level of social participation. Alesina and La Ferrara (2002) identify some factors that explain low trust levels: recent traumatic experiences, belonging to a discriminated minority, failure in terms of education and income, and residing in a mixed community. Indeed, tendencies toward population heterogeneity, in terms of income or ethnicity, may act as a deterrent to social interaction, as social networks based on homogeneity and shared interests are reduced or broken. Additionally, the increased mobility levels of the working population and rising in- and out-migration trends can bring further momentum to social segmentation. This trend can be observed indirectly through the falling rate of home ownership. Indeed, because of the high transaction costs in the real estate market, low mobility is paired with home ownership.

Social capital may be considered an *involuntary* policy resource. Montgomery (2000) studies how political leaders may use social capital originally formed for some purposes to accomplish completely different objectives. In this regard, social capital is a potential source of improved voting levels, a multiplicity of active memberships, macro-level improvements in public health associated with community activity, and micro-level success in administering development projects.

Fischbacher et al. (2001) experimentally investigate conditional cooperation: people condition the level of their contribution on the contributions of others. There is mounting evidence that cooperation is not merely an altruistic act, but that it can serve selfish purposes as well (Axelrod, 1984), that is, people cooperate also because they expect to obtain benefits. The final effect is that, for instance, cooperative people encourage reciprocity from others, have a reputation as dutiful members of society with a virtuous behaviour, develop a social status and lay claim to leadership. A frequent and sizeable virtuous cycle of cooperation allows considering social capital as predictable and a useful basis for policy initiatives.

Even though family ties seem to affect individual migration (Palloni et al., 2001), when people choose to emigrate they break a large part of their old ties and affiliations. Indeed, migration generates a deep impact on social capital of individuals, affecting, for instance, their propensity to become entrepreneurs (Wahba and Zenou, 2012). In such a way, individual behaviour is less driven by inherited communal obligations and more by personal considerations deriving from the market (for instance, wage levels) and non-market value preferences (for instance, culture charm) (Heffron, 2000). Masses of migrants change and co-determine, in such a way, the evolving structure of human and social capital in a given region. In light

of this, policies should address the significant costs to moving from one community to another.

In summary, social capital is heterogeneous and somewhat volatile as a policy resource. The access to the energies embodied in social capital depends on the kind of social capital. Indeed, Inglehart (1997) states that the main drivers of a fifty-year period of rapid social and economic development, in addition to the materialist values such as individualism and achievement, were traditional social norms like obedience and religious faith rather than post-materialist values of trust and cooperation one normally associates with social capital. In addition, social capital is a neutral resource: if it is accessed, its uses may raise the efficiency of a policy; however, the same uses strengthen the commitment to the organisations' values and benefits that have either positive or negative side effects for the society as a whole.

### **3.2 Education as a co-objective in social capital policies**

Particular attention should be devoted to the role of education in the process of the transmission and accumulation of social capital.

The role of policymaking requires in general to develop the capital stock of the nation. In the past, the main focus was on investment in physical capital, whereas, today, the emphasis has shifted towards investment in human capital, which is considered of paramount importance to realising well-being. In the future, the focus may shift towards social capital, which partially overlaps human capital, as the investment relevant to increasing well-being. Knowledge disseminated by education positively affects non-market aspects of the quality of life. The externality-type benefits that reach others are even more important to human welfare than just economic growth.

In knowledge- and competence-based economies, people have become extremely important. A more educated population is attained through better educational facilities, meaning better physical and immaterial assets. A rising level of human capital, through a more educated and healthier population, leads to higher productivity that translates into higher profits and wages, lower fertility rates, political stability and freedom, lower rates of poverty and inequality, a better environment and lower crime rates. Indeed, education, being critical to the broader process that sustain economic growth, is the building block of economic development, generating non-market returns and externalities that are vital to human welfare.

Human capital and knowledge, together with social capital, are peculiar kinds of capital for their ability to be infinitely transferred without exhaustion. This characteristic enables individuals to share something that can be given to others without diminishing its availability to the original individuals. Social capital appreciates with use: the more often it is accessed, the higher its level of utility to individuals. It also has a strong complementarity with other forms of capital. Social entrepreneurship, improving the reputation of a region, produces social capital that can be exploited also by commercial entrepreneurs (Estrin et al., 2013). Therefore, a widespread not-for-profit sector and a high level of civic development are supportive of a broad diffusion of social capital (and capital in general).

The accumulation of human and social capital occurs via inter- and intra-generational transmission mechanisms. Individuals acquire good culture mainly from their parents and update their values intra-generationally through their life contacts. The relevance of inter-generational networks is attested by many scholars. For instance, Magruder (2010) finds that fathers serve as useful network connections for their sons. However, intra-

generational networks have been less investigated. Schools and social *spaces* where interactions take place are decisive in creating and shaping social capital. Therefore, spatial/urban segregation should be considered as an influential factor for the dissemination of trust and beliefs: life in a certain neighbourhood usually leads to certain occupations, socioeconomic positions and particularly to shared values.

## 4 Concluding remarks

Social capital co-evolves with institutions and individuals. Economic agents, however, often do not understand and exploit it. Policymakers may be obstructed by a reductionist vision of economics populated only by perfectly rational individuals. However, they should take into account and also exploit social capital to achieve social goals. Indeed, policymaking has to be fine-tuned with the proper balance of instruments, such as market-oriented incentives, public coercion and enhanced social and civic participation. The interactions between these instruments are many and they can puzzle policymakers.

For instance, crowding out may occur whenever property rights are fixed in a more precise way and enforced by fines and sanctions in the attempt to induce higher levels of work effort, compliance with norms, or environmental conservation. If this is the case, social capital may decrease and be replaced by other forms of capital. When policy and social changes are relevant, some time may be needed in order to interiorise the new norms of conduct. Because of important features shared with social capital, human capital is to be considered as well. For instance, investment in education should be prioritised by policymaking for its externality-type benefits on all the population, like reduced crime and enhanced social cohesion.

Human relations support economic growth, sustainable development and social progress. People live in a relational context and have relational needs. Therefore, increasing efficiency might be useless if it neglects such needs. But if “no man is an island” (Donne and Lush, 1988; Merton, 2005), Heffron (2000) notes that, given the recent explosion of voluntary group activity, no group is an island either. Individuals use their group memberships to access goods and services of other groups to which they do not belong. The amount of social capital within a group is inversely related to the level of the group’s isolation from other groups and associations in society. Nowadays, group ties and affiliations are often chosen on the basis of market forces, non-market value preferences and duties to society and the state rather than of community obligations. Therefore, increased space for public intervention can be foreseen in this regard, in the form of policies supporting social capital accumulation.

However, social capital and trust, binding members of a group together, can cause hostility against other groups. Moreover, durable relationships help keep groups together, but they do not necessarily imply trust, since individuals can take advantage of a possible free ride and diminish their efforts accordingly. Even so, it is widely accepted that the stable and positive effects of social capital exceed its downsides.

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