Social Capital

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What is it?

- The accumulation of trust amongst individuals, cooperative behavior, respect for the rule of the game, i.e. respect for the common good, morality in own behavior toward others.

- James Coleman U of Chicago Sociologist first introduced this concept with some clarity

What is Social Capital?

- A factor of production?

- Inputs: physical capital, labor augmented by its education, (i.e. human capital) and social capital

SC and individualism

- Is the notion of social capital contrary to that of individual maximizing his/her own utility?
- No.
- In a "good" social equilibrium trusting others, being respectful of the common good may be your best strategy.
- Maximization of utility under the rule of the game

Social Capital in Italy

- Why Italy?
- Very large difference in level of economic development between North and South
- Very different level of functioning of institutions, rule of laws, corruption, tax evasion.
- Very different level of social capital seem to explain much of this difference

Why so different?

- Why social capital and development in the North and South of Italy so different?

- Two critical books about this Banfield and more directly Putnam

Banfield

- Study of the village of Chiaromonte in Southern Italy
- Amoral familism: people trust only members of the immediate family and distrust everybody else
- Moral behavior only toward immediate family antisocial behavior towards others linked to underdevelopment in Southern Italy

More precisely….

- Amoral familism: maximize the material short run advantage (benefits) of the nuclear family **assuming that the others will do the same**

- The assumption about others doing the same is what sustain amoral familism as a sub optimal Nash equilibrium.

- Best response to amoral familism is amoral familism, sort of prisoners" dilemma

Amoral familism around the world

- Amoral familism is not an Italian prerogative
- We should view Banfield's work as an example of how a degenerate notion of family leads to poor social equilibrium.
- More on this later on the role of the family

Implications

- no interest in fostering the benefits of the community by participating in social activities unless the latter have an immediate SHORT RUN benefit for the family
- Inside and outside of houses
- This is the opposite of social capital

Implications

Only Public officials will concern themselves with public affairs but only because they are paid to do so; they have no interest in working harder to satisfy goals of the community, they would not be expected to do so. If they did their behavior would be perceived as an attempt to foster personal interests

Implications

- Checking on (monitoring) officials is a public good, nobody will do it except other officials paid for doing so, but they also will act as amoral familists

- Therefore lack of civicness and political participation (again opposite of social capital)

- Recent research on that

Implications

- Lack of trust does not allow the formation of social groups and even economically useful organizations: farmers' cooperatives to take advantage of economies of scale; public transportation

- Trust is a key element of what determines social capital, as Putman argues (below)

Implications

- Law will be disregarded unless a punishment is expected, no enforcement no respect for the law.

- Law enforcement low.

Implications

- The previous point will apply to officials as well; they will take bribes and act dishonestly if trey can get away with it (and most of the time they can) if they do not do so, people will assume that they do

Implications

- No role for ideology or abstract views about good and bad for society as a whole; everybody who proclaims to have it is viewed as a fraud hiding his/her true goals (which are expected to be motivated by amoral familism)

Amoral familism and religion

- Amoral familism applies also to the church
- No social role of the church
- Religion as a private affairs
- Priest uninterested in social activities

So what?

- Amoral familism impede development because it interferes with good government, provision of useful public goods, trust, building of the necessary economic organization, building of trust in economic affairs, education acquisition etc.

So what?

- Amoral familism goes together with a deep pessimism.

- Tomasi di Lampedusa "the Leopard" (also famous movie by Visconti) "Everything has to change to stay the same"

- If you do not trust anyone you expect any initiative to fail, lack of risk taking behavior.

The Mafia

- The mafia serves the purposes of providing enforcement of contracts where trust amongst people is lacking and law is not enforced easily (Diego Gambetta "the Sicilian mafia" OUP)
- Note the use of the word mafia "family" in an amoral femilistic society you trust your own family and nobody else, the mafia family!

Causality

- Is it poverty that determines amoral familism or the other way around?

- Banfield argues that peasants not willing to give time to social activities (even enjoyable one) even though time was plentiful to them because of agricultural seasons: idle peasants were not willing to engage in public spirited activities

Causality

- Comparisons between poverty in different societies: US versus Southern Italy
- Banfield compares a small town in Utah with Chiaromonte of similar per capita income: in the Utah town there was a local newspaper, church social meetings, farmers coop.
- Comparison between north and south of Italy in medieval times and what happened later

Individualism and capitalism

- Subtle relationship: without individual incentives to motivate initiative capitalism does not develop (Weber etc)

- But amoral femilism a form of perverse individualism that impede development

- Is there a good and bad individualism?

Putnam

- Where does the difference between north and south of Italy come from?

- Why such large and persistent differences in the functioning of society (public goods provision, trust, cooperative behavior, social capital in one word) even though political institutions are the same and in fact until recently relatively centralized?

Natural experiment

- Putman takes advantage of a so called "natural experiment"

- In the early seventies Italy introduced regional governments which assumed at the regional level some of the previously centralized functions of government.

- Quality of government in different region extremely different

Institutions and Culture

- If institutions determined outcomes there should not be than much difference between different regions of Italy

- But if the same institutions newly introduced functions very differently there must be something else going on and explaining the differences

Putnam

- History ➔ Culture ➔ Socio economic Outcomes
- Rather than History ➔ Institutions ➔ Socio economic Outcomes

Putnam

- Measure directly performance of regional governments.
- Interviews, acting as a citizens demanding services, outstanding research work

Putnam's results

- Unit of observation: 20 Italian regional governments

- Correlation between levels of social capital and functioning of regional governments

- Main difference between north and south but also within north and south

Hypothesis

- Southern Italy has much less SC than the North because of a lack of the free city state experience in the XII XIV century

Persistence of History

- Putnam noted a correlation between that different historical development and current measures of social capital in Italy such as participation in civic groups, coral societies, etc

- Correlation between current social capital and functioning of society

A Primer in Italian Medieval History

- Toward the end of the first millennium Carolingian Holy Roman Empire is disintegrating
- The vacuum created by the weakening of the imperial authority lead to the emergence of local power.
- In some cities the response to the lack of government was the formation of small groups of individuals who agreed with a "*patto giurato*" to provide mutual help and collaborate to solve problems of common interest.
- Enforcement of the pact was achieved by a threat of exclusion, often sanctioned by the local bishop

A Primer in Italian Medieval History - 2

- Development of free city is associated with
  - political decision making becomes a public matter, authoritarian structure of Feudal lords dismantled personal freedoms receive legal protection
- A structure is put in place to pay for public goods

Why not all free city states?

- In the South: Norman Kings prevented that
- In the North:
  - some cities found more difficult to coordinate
  - some cities found more difficult to protect themselves
  - in some areas Imperial power stronger

Putman revisited

- Guiso Sapienza Zingales (2007) "Long Term Persistence"
- Look more careful at Putnam's conjecture using variations even within northern cities

REGNO DI GERMANIA

REGNO DI ARLES

Carinzia

PATRIARCATO DI AQUILEIA

Gottarde
Bellinzona
Locarno
Chiavenna
Boemio
Bolzano
Bressanone
PRINCIPATO VESCOVILE DI TRENTO
Belluno
Feltre
Trento
Gravedona
Udine
Marca
Rovereto
di
Ceneda
Aquileia
Grado
Capodistria
Trieste

Gran S. Bernardo
CONTEA DI AOSTA
Aosta
(SAVOIA)
Lecco
Pontida
Bergamo
Bassano
Treviso
Istria
Croazia
Moncenisio
Ivrea
Biandrate
Como
Legnano 1176
Milano
Corteruova 1237
Brescia
Vicenza
Verona
Padova
Venezia
VEGLIA
CHERSO
REGNO D'UNGHERIA
Susa
Vercelli
Novara
Pavia
Crema
1237
Lodi
Cremona
Montichiari
ESTE
Chioggia
LUSSINO
PAGO
CONTEA DI TORINO
Torino
Asti
Alba
MONFERRATO
Piacenza
LOMBARDIA
Tortona
Roncaglia
Parma
Reggio
Modena
Ferrara
Pola
LUSSINO L. LUNGA
Saluzzo
Savigliano
Acqui
Alessandria
Bobbio
Canossa
Folsalta 1249
Bologna
Romagna
Ravenna
Zara
SALUZZO
MARCA DEL VASTO
Genova
PALLAVICINO
Pontremoli
Imola
Faenza
Forlì
Cervia
BERTINORO
Rimini
Pesaro
Senigallia
Ancona
Spalato
Dalmazia
Savona
Noli
MALASPINA
Sarzana
Massa
Lucca
Pistoia
Prato
Firenze
S. MARINO
Cesena
Urbino
Jesi
BRAZZA
SERBIA
Albenga
Ventimiglia
Pisa
S. Miniato
Empoli
Camaldoli
Arezzo
Macerata
Fermo
LISSA
LESINA
Provenza
Mar Ligure
Porto Pisano
Volterra
Siena
Massa
Montepulciano
Chiusi
Perugia
Gubbio
Camerino
Ascoli
CURZOLA
Toscana
Marca di Ancona
Ragusa
ELBA
Grosseto
Orvieto
Assisi
Spoleto
Ducato di Spoleto
Viterbo
Narni
L'Aquila
Chieti
Abruzzo
Termoli
Vieste
CORSICA
Bastia
Patrimonio
Sutri
Tivoli
Civitavecchia
Roma
Ferentino
di San Pietro
Ostia
Montecassino
Gaeta
Terra di Lavoro
Aversa
Capua
Napoli
Amalfi
Salerno
Ajaccio
Bonifacio
Contea di Molise
Fiorentino
Lucera
Troia
Benevento
Terra Beneventana
Ascoli
Melfi
Potenza
Matera
Capitanata
Barletta
Trani
Bari
Monopoli
Terra di Bari
Brindisi
Giud. di Gallura
Giudicato di Logudoro
Torres
Oristano
SARDEGNA
Giud. di Arborea
Cagliari
Mar Tirreno
Principato
Policastro
Basilicata
Tursi
Taranto
Terra di Otranto
Gallipoli
Otranto
Castrovillari
Val di Crati
Mar Adriatico
Repubblica di Venezia

Testing Putnam's conjecture

- Not all towns that existed in year 1,000 became free cities in XII-XIV century

- Not all those that became free cities maintained independence

- Use heterogeneity in history across cities within Center-North

- Correlate social capital today to
  - History as a city state
  - Length of that experience

How to classify history?

- Individual city history not reliable
- They use historical atlases
  - 1176: Peak of the fight with the Emperor
  - 1300: Peak of the communal experience
  - Union of the two
- Restrict analyses to top 400 towns by inhabitants in 1871

How to measure social capital?

- Social Capital:
  - Number of associations
  - Turnout in referenda
  - Presence of an association of organ donors
- Other controls:
  - Crossroad of Roman roads: Historical Touring Club
  - Morphological characteristics +
  - Economic characteristics
    - Le Misure dei Comuni, 2003-2004 edition

Is Putnam Right?

- Per capita # of non for profits

Sample of 400 largest towns in the Center-North

Only History	History and geography	History, geography and endowment	No large towns	No province capitals	History, geog., endow. and income	History, geo,endow and area dummies
0.4227	1.1218***	1.0464***	0.9293**	1.6961***	1.0246***	1.1685***
(0.3633)	(0.3278)	(0.3284)	(0.3670)	(0.3836)	(0.2743)	(0.2777)

- We control for
  - Geography: altitude, steepness, proximity to the sea, location on Roman road
  - City size : population linear, square
  - Inequality in endowments: income and land ownership
- Economic effect: a town that has been a free city in the XI century has today 20% more SC than one that has not be a free city

Persistence

- How can it be that events that happened 700 years ago or so still have an influence today?
- An equilibrium with low social capital has to be self sustained

Cross county comparisons within the US

- Level of social capital differ tremendously across us states and countries
- What determines this differences?

Participation and heterogeneity: Alesina and La Ferrara (2000)

- Individuals prefer to interact and trust others who are more similar to themselves.
- Lots of experimental evidence
- Statistical evidence on participation in groups

Data

- Individual membership and controls:

  General Social Survey (GSS), 1973-94

- Racial and ethnic heterogeneity:

  Census 1990 - fragmentation index in community

$$Race_i = 1 - \sum_k s_{ki}^{2}$$

k=races

i=MSA/PMSA

- Income heterogeneity:

  Census 1970,80,90 - Gini coefficient in MSA/PMSA

TABLE I
Descriptive Statistics

Panel A: Summary statistics

	Mean	Std. dev.
Member of any group	.71	.45
Member of church group	.34	.47
Member of fraternity	.09	.29
Member of service group	.10	.30
Member of hobby club	.10	.29
Member of sport club	.20	.40
Member of youth group	.10	.30
Member of literary group	.10	.30
Member of school service group	.14	.35
Member of school fraternity	.05	.23
Member of veterans' group	.06	.24
Member of political group	.05	.21
Member of nationality group	.04	.20
Member of union	.15	.36
Member of professional association	.17	.37
Member of farmers' group	.02	.14
Member of other group	.11	.31
Gini	.41	.03
Racial fragmentation (*Race*)	.36	.15
Ethnic fragmentation (*Ethnic*)	.67	.07

Panel B: Correlations

	Membership	Gini	Race
Gini	−.06**		
Race	−.05**	.34**	
Ethnic	−.04**	.09	.56**

*Denotes significance at the 5 percent level; **at the 1 percent level.

TABLE II
INDIVIDUAL DETERMINANTS OF PARTICIPATION

	Marg. Probit coeff.[a]	Std. error[b]
Cohort	−.002*	(.001)
Age <30	−.035	(.028)
Age 30–39	−.029*	(.018)
Age 50–59	.004	(.016)
Age ≥60	.035	(.027)
Married	−.001	(.011)
Female	−.046**	(.011)
Black	.045**	(.011)
Educ <12 yrs	−.122**	(.013)
Educ >16 yrs	.144**	(.012)
Children ≤5 yrs	−.035**	(.014)
Children 6–12	.071**	(.012)
Children 13–17	−.005	(.014)
ln (real income)	.074**	(.006)
Full-time	.025**	(.011)
Part-time	.067**	(.016)
STATES	Yes	
YEARS	Yes	
No. obs.	10534	
Pseudo R^2	.09	
Observed P	.72	
Predicted P	.74	

*Denotes significance at the 10 percent level; **at the 5 percent level.
a. Marginal probit coefficients are calculated at the means.
b. Standard errors are corrected for heteroskedasticity and clustering of the residuals at the MSA level.
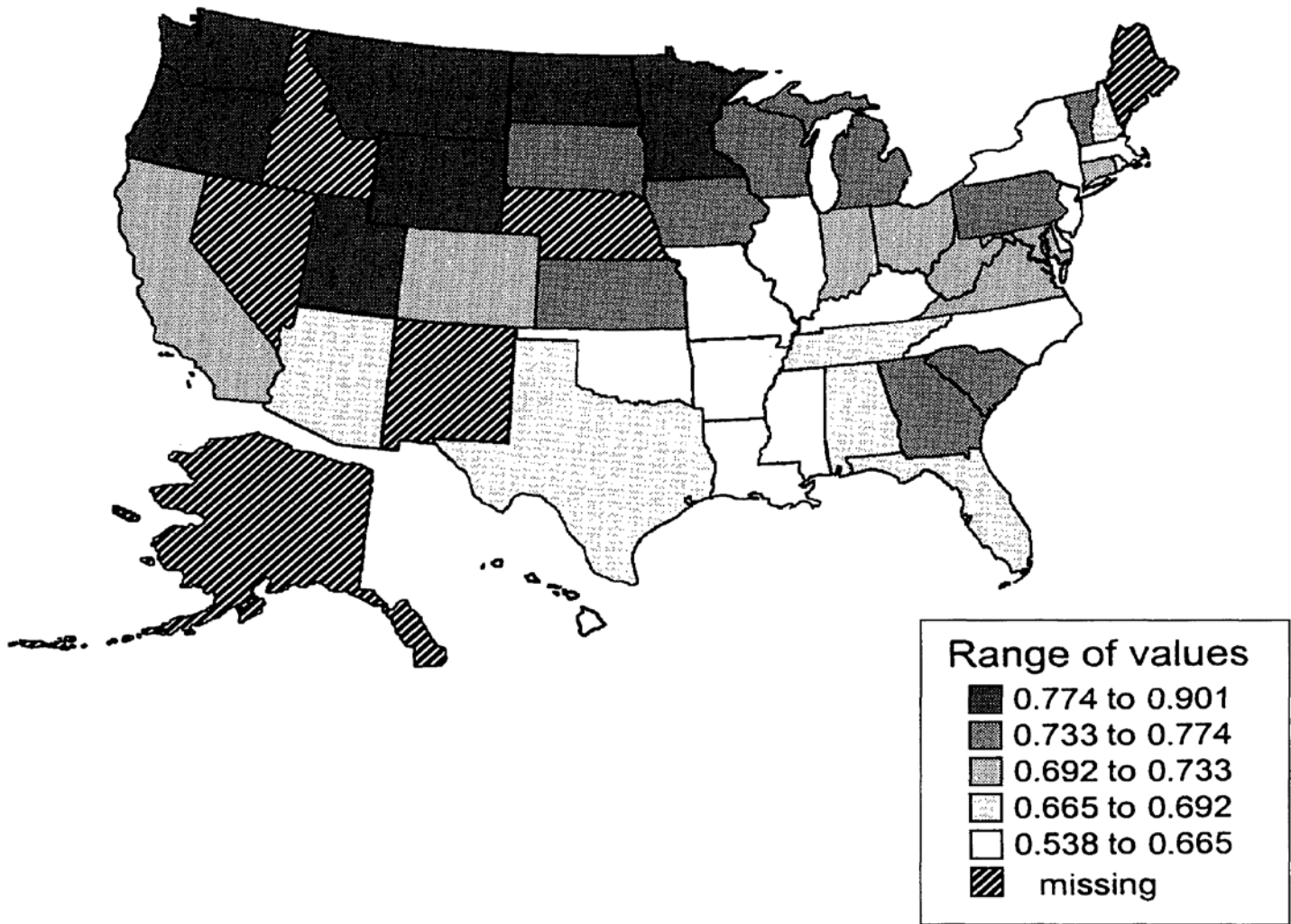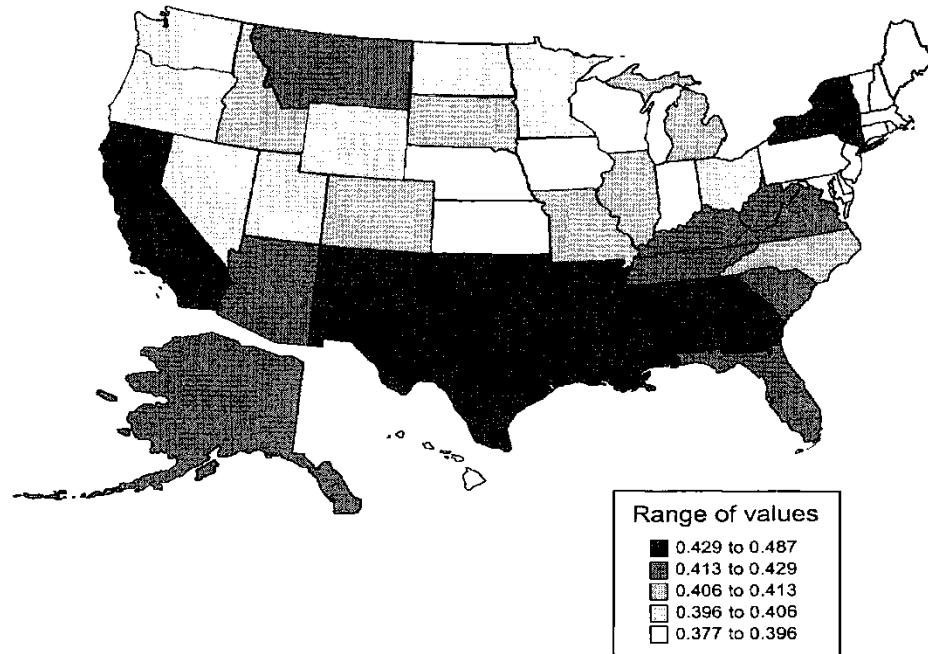
FIGURE III
Average Membership Rate, 1973–1994

Range of values

- 0.429 to 0.487
- 0.413 to 0.429
- 0.406 to 0.413
- 0.396 to 0.406
- 0.377 to 0.396
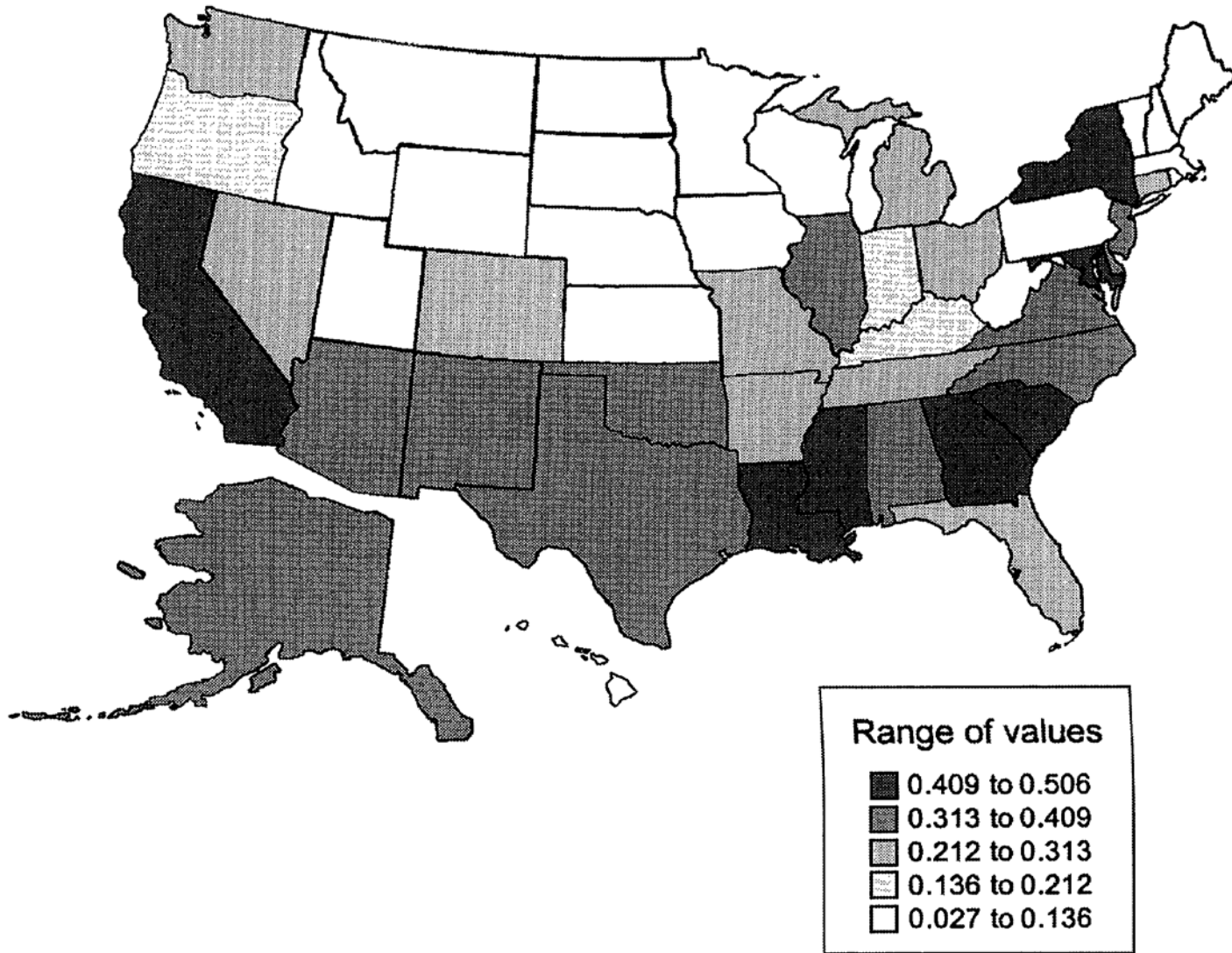
FIGURE IV
Gini Coefficient, 1972–1994

FIGURE V
Racial Fragmentation, 1990

Social Capital in the US

- Putman "Bowling Alone" declining social capital in the US, a major determinant of various negative consequences.

- People watch TV alone rather than gang to bowl in groups, with their teams etc.
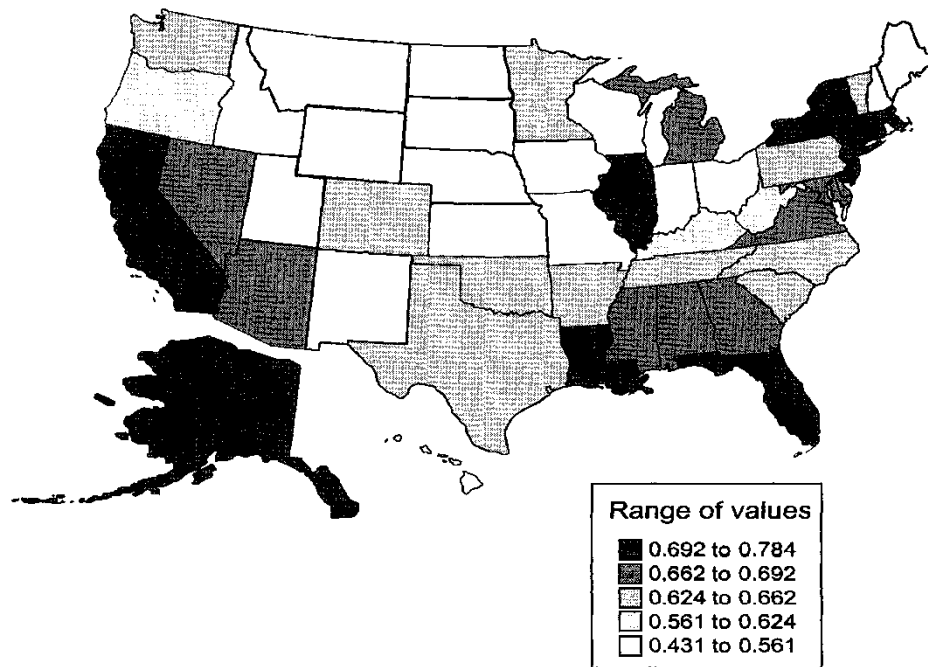
- Argument disputed, jury is still out

FIGURE VI
Ethnic Fragmentation, 1990

TABLE III
HETEROGENEITY AND PARTICIPATION

	(1)	(2)	(3)	(4)	(5)	(6)
Size of place	−.003	−.002	−.003	−.002	−.002	−.002
	(.002)	(.002)	(.002)	(.002)	(.002)	(.002)
Med HH income	4.379**	5.733**	4.587**	5.230**	4.259**	4.994**
	(1.491)	(1.688)	(1.620)	(1.688)	(1.577)	(1.740)
Med HH inc. $\wedge2$	−.220**	−.282**	−.227**	−.259**	−.213**	−.248**
	(.071)	(.080)	(.077)	(.080)	(.075)	(.082)
Gini	−.916**			−.443**	−.773**	−.468*
	(.238)			(.249)	(.233)	(.261)
Race		−.201**		−.141**		−.112
		(.057)		(.068)		(.071)
Ethnic			−.253**		−.161*	−.082
			(.106)		(.092)	(.089)
INDIV CONTROLS[a]	Yes	Yes	Yes	Yes	Yes	Yes
STATES	Yes	Yes	Yes	Yes	Yes	Yes
YEARS	Yes	Yes	Yes	Yes	Yes	Yes
No. obs.	10534	10534	10534	10534	10534	10534
Pseudo R^2	.09	.09	.09	.09	.09	.09
Observed P	.72	.72	.72	.72	.72	.72
Predicted P	.74	.74	.74	.74	.74	.74

*Denotes significance at the 10 percent level; **at the 5 percent level.
   Marginal probit coefficients are calculated at the means. Standard errors are corrected for heteroskedasticity and clustering of the residuals at the MSA level.
   a. Individual controls: all those listed in Table II.

Endogeneity of Gini

- More participation may lead to less inequality: people get contacts finds jobs better diffusion of information etc.
- Finding jobs with contacts is very common

Instrument

- Number of municipalities in 1962;

- More fragmentation in independent township more inequality (the rich isolate themselves from the poor etc);

- Percentage of intergovernmental transfers from higher levels of government in 1962: they may be targeted to reduce inequality or poverty

Instruments

- Percentage employed in manufacturing, but not exogenous to union participation and possibly other groups as well

TABLE V
Instrumenting Gini

	OLS	2SLS Instrument set:		OLS	2SLS Instrument set:
		Dependent variable: Member			Dependent variable: Member (excl. unions)
		NGOV62	NGOV62 REVIG62		NGOV62 MANSHR
	(1)	(2)	(3)	(4)	(5)
Gini	−.858**	−2.130**	−2.252**	−1.027**	−1.730*
	(.240)	(.742)	(.730)	(.241)	(.752)
INDIV CONTROLS[a]	Yes	Yes	Yes	Yes	Yes
STATES	Yes	Yes	Yes	Yes	Yes
YEARS	Yes	Yes	Yes	Yes	Yes
No. obs.	10333	10333	10333	10243	10243
R^2	.11	.10	.10	.11	.11
Hausman (*p*-value)		.01	.03		.01
Sargan (*p*-value)			.81		.70

*Denotes significance at the 10 percent level; **at the 5 percent level.

Marginal probit coefficients are calculated at the means. Standard errors are corrected for heteroskedasticity and clustering of the residuals at the MSA level.

a. Individual controls: all those listed in Table II.

TABLE VI
PARTICIPATION BY TYPE OF GROUP[a]

Dependent variable is membership in	Marginal Probit coefficients on:		
	Gini	Race	Ethnic
Church groups	−1.027**	−.156**	−.278**
	(.208)	(.044)	(.104)
Fraternities	−.323*	−.031	−.014
	(.185)	(.030)	(.081)
Service groups[b]	−.348**	−.057**	−.103**
	(.139)	(.028)	(.053)
Hobby clubs	−.520**	−.078**	.007
	(.131)	(.028)	(.057)
Sport clubs	−.789**	−.123**	−.038
	(.291)	(.064)	(.078)
Youth groups[c]	−.430*	−.060	−.007
	(.235)	(.043)	(.064)
Literary groups[b]	−.019	−.022	−.025
	(.193)	(.047)	(.070)
School service groups[d]	−.957**	−.112	−.136
	(.433)	(.072)	(.146)
School fraternities[b]	−.176	.003	−.026
	(.117)	(.032)	(.046)
Veterans' groups[e]	−.147	−.024	−.050
	(.114)	(.023)	(.039)
Political groups	−.271**	−.028	−.023
	(.128)	(.024)	(.048)
Nationality groups	.033	.018	.077**
	(.090)	(.017)	(.036)
Unions[f]	−.021	−.015	.107
	(.243)	(.050)	(.071)
Professional associations[g]	.129	.113	.198
	(.447)	(.104)	(.182)
Farmers' groups[h]	2.965	.465	.338
	(4.184)	(.503)	(.967)
Other groups	.032	−.050	−.077
	(.210)	(.037)	(.072)