

The Social Capital Paradigm and Institutional Economics

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Social Capital is a LEGITIMATE CONSTRUCT because ...

... an active and growing literature has emerged that attempts to

- **define it rigorously**
- **relate it systematically to relevant phenomena and related concepts**
- **measure it**
- **develop testable propositions concerning it**

... and make rapid progress by piggy-backing on a well-established and respected concept, i.e., capital

Social Capital is SOCIAL because it ...

- **deals with relationships among people**
- **recognizes that society is more than a simple aggregation of its individual members**
- **typically involves public goods, etc.**
- **facilitates transactions**

Social Capital is CAPITAL because it ...

- generates a stream of production over time
- responds to investment and disinvestment
- each new vintage incorporates new technological potentials

Institutional Economics is

- organic rather than individualistic
- opposed to treating individual preferences as given, and social outcomes as the result of some preference aggregation process
- multi-disciplinary
- dynamic and recursive (but not formally so)
- not anti-theoretic ... but has failed to generate a coherent general theory (Hodgson, 1998)
- **vulnerable to romanticism**

Institutional Economics *Methodology* ...

- is pragmatic, holistic, anti-reductionist
- story-telling, pattern modeling (Wilber & Harrison, 1978)

That's OK ...

- story-telling is a search for sufficient conditions
- pattern modeling seeks to discover generalizations

... but Occam's razor is seldom unsheathed

What really is meant by Social Capital?

1. Institutions, working rules, customary arrangements, going concerns ? (J. R. Commons)
2. Trust / community involvement / civic engagement ? (e.g., Paldam & Svendsen)

... may have complementary and/or antagonistic relationships with formal institutions (they say)

... but when formal institutions are constructive, antagonism seems unlikely

Let's Re-examine the CAPITAL in Social Capital

Social Capital is CAPITAL because it ...

- generates a stream of production over time
- responds to investment and disinvestment
- each new vintage incorporates new technological potentials

..... so far so good!!

But capital is ...

- summarized in asset values – PV of exp. streams of rents
- revealed and continually reassessed in markets ...
- ... and this property generalizes to derivatives that convey claims to some facets of the stream of rents

Social capital lacks this property ...

... leaving it

- without any obvious way to value a particular complement of social capital ex ante. There are problems of sign as well as magnitude
- vulnerable to *pastoral romanticism*

Pastoral Romanticism arises from ...

- an inability to recognize ... and appreciate the potential of ... emerging forms of social capital
- and the resulting tendency toward fixation upon the loss of obsolescing forms of social capital

The Social Capital paradigm cannot thrive as an exercise in nostalgia

Conclusion: The Social Capital Paradigm ...

1. Is on to something ... social capital matters
 - to the well-being and progress of society
 - to society's capacity to adapt and evolve
2. But it has no obvious way of recognizing *ex ante* whether a particular complement of social capital is helpful or harmful and, if helpful, is of high or low value

... rendering it vulnerable to nostalgic and pastoral romanticism

Conclusion (cont.)

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... and this property generalizes to derivatives that convey claims to some facets of the stream of rents

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SOCIAL INFRASTRUCTURE

Perhaps we would do better to think of it as ***SOCIAL INFRASTRUCTURE***

That way, we would acknowledge that the hard part ...

... assessing the value of whatever it is that we encompass in
the term ***social capital*** (institutions, going concerns? mutual
trust, civic engagement?) ...

... remains the challenge