SOCIAL CAPITAL
RESEARCH

Social capital in economics

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Article Info

Received 26 August 2019
Available online 19 September 2019

Academic non peer reviewed
Open-access

Keywords:
social capital
social capital theory
economics

Abstract

The concept of social capital has received significant attention from economists, as it allows for the inclusion of social factors that lie beyond the traditional scope of economic analysis. Despite its intangible nature, social capital has long intrigued some economists, who recognise the role of trust, reputation, norms, and belonging in shaping economic outcomes. However, social capital's multidimensional, intangible, and dynamic nature presents challenges in its conceptualisation and measurement. This article explores the complexities of social capital and its constituent parts, highlighting the need for a nuanced understanding. While social capital is often simplified to tangible components such as social networks or individual trust, this reductionist approach fails to capture its full complexity. James Coleman's rational action-based definition of social capital has been widely embraced by economists, aligning social capital with social exchange theory. Nevertheless, various definitions of social capital have emerged, incorporating structural and cognitive elements. However, the concept of social capital has not been without its critics. Esteemed economists, including Arrow, Solow, and Bowles, have voiced concerns, and Ben Fine has called for its outright rejection, labelling the social capital literature as flawed. The article argues that the economic analysis of social capital must carefully consider its theoretical underpinnings and grapple with its inherent complexity. Researchers must critically examine assumptions, question the meaning of their findings, and acknowledge underlying assumptions when applying social capital theory. Achieving a comprehensive understanding of social capital requires rigorous analysis that accounts for this important social phenomenon's diverse dimensions and intangible aspects.

Introduction

For economists, the term 'social capital' allows for the consideration of social factors that are normally beyond the purview of economic analysis. Despite their intangible nature, economists since at least David Hume and Adam Smith have been interested in the role of social factors such as trust, reputation, norms and belonging in economic outcomes.

These social phenomena cannot be easily understood from an economic framework based on rationality, reductionism, and individualism, however, casting them as capital makes them more tangible and, in theory at least, forces them into consideration along with economic factors.

However, social capital is an umbrella concept that obscures the complexity of its constituent parts. Social capital is multidimensional, intangible and dynamic. It exists mostly in the minds of individuals as attitudes, values and habituated patterns of thought and action. This makes it intangible since it cannot be directly observed and attempts to measure it must rely on proxies that indicate the presence of the underlying phenomenon.

This has led many economists to simplify the concept to its more tangible components, such as networks of social relationships, or a single dimension, such as trust. Economists have also tended to treat social capital as the property of the individual since this lends itself to reductionist analysis.

An economic definition of social capital

James Coleman (1988) is widely considered the contemporary authors on social capital whose work is most suited to economics. Although a sociologist, Coleman used economists' principle of rational action in the analysis of social systems. Rational choice theory assumes individuals are self-interested and deliberate utility maximisers, and under this framework social capital could be considered an extension of social exchange theory.

Coleman's definition of social capital was as follows:

> *"Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: They all consist of some aspect of social structure, and they facilitate certain actions of*

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doi: 10.5281/zenodo.8285267

individuals who are within the structure" (Coleman 1990, p. 302).

It is not surprising that most economists have followed Coleman's conceptualisation of social capital.

There are numerous other definitions of social capital. Definitions generally have some combination of role-based or rule-based (structural) and mental or attitudinal (cognitive) origins (Uphoff, 1999).

In recent times authors have increasingly cited either Adler and Kwon (2002 p.23) or Nahapiet and Ghoshal (1998 p.243). These commonly used definitions are below.

"Social capital is the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor."

Adler, Paul S. and Seok-Woo Kwon. 2002. "Social Capital: Prospects for a New Concept." Academy of Management. The Academy of Management Review 27(1):17–40.

"the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilised through that network"

Nahapiet, Janine and Sumantra Ghoshal. 1998. "Social Capital, Intellectual Capital, and the Organizational Advantage." Academy of Management Review 23(2):242.

Criticism of non-economic capitals such as social capital

Social capital has been criticised by notable economists such as Kenneth J. Arrow (1999), Robert M. Solow (1999), and Samuel S. Bowles (1999). Ben Fine (2002) called for wholesale rejection of the concept, describing the social capital literature as marred by 'vulgar scholarship'. To most economists attaching the adjective 'social' to the economic term 'capital' is an attempt to modify 'capital' as 'social' which is both unnecessary and inappropriate (Mayer, 2003).

Economic analysis and measurement of social capital

Social capital cannot be easily or directly measured, making it difficult to include in economic analysis. Many scholars (from economics and numerous other disciplines) have used the concept without sufficient consideration of its theory and have failed to understand and account for its inherent complexity.

Since social capital cannot be observed directly researchers tend to use indicators that can be measured and that are believed to have a causal relationship with the aspects of social capital being measured. The quality of these proxies depends on the theoretical and practical relationship to the aspect of social capital that is being measured. To measure social capital the 'social' is often reified and reduced to characteristics of something else.

There has been debate about whether social capital can be measured and whether any legitimate claims can be made from social capital measurement data. Since social capital is relatively intangible, the quantified data related to social capital must also be considered somewhat intangible. This however is incongruous with economic analysis. Application of social capital theory must examine assumptions and question what findings actually mean. This must be done with rigorous consideration of theory and acknowledgement of underlying assumptions.

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