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Social Capital and Challenges of Development

In Latin America and East Central Europe

“The encounter between neoclassical economics and developing societies served to reveal the institutional underpinnings of market economies. A clearly delineated system of property rights, a regulatory apparatus curbing the worst forms of fraud, anticompetitive behavior, and moral hazard, a moderately cohesive society exhibiting trust and social cooperation, social and political institutions that mitigate risk and manage social conflicts, the rule of law and clean government ---- these are social arrangements that economists usually take for granted, but which are conspicuous by their absence in poor countries.”

Dani Rodrik (1999: 6)

Introduction

While Latin America has been known for widespread corruption, fraud, cronyism, and generalized distrust, until recently, these faults were rarely discussed in relation to post-communist countries, and remained in the shadow of studies concerning spectacular system-transforming reforms. These issues elicited more attention no sooner than in the middle of the 1990s, owing to two outstanding circumstances. On one hand, it became clear that system-transforming reforms, usually labeled “transition to market economy and democracy,” had not brought about a targeted, Western-style market economy and liberal democracy, but led to the emergence of “post-communism.” On the other hand, the rapid growth and diffusion of research devoted to social capital

allowed for the realization that its shortage might be one of most important causes of several troubling developments.

The problems of dishonesty, distrust, and more generally of low social capital are ubiquitous in all developing and post-communist countries. The fact that recently, corruption, deception, lying, fraud, and abuse of trust are discussed more often than before might lead to a false impression that they were either absent or insignificant under communism. However, the truth is that under this type of regime they widely permeated subjugated societies, but were concealed, as it was forbidden to talk and write about them.

The literature on this topic centers on two major issues. The first of them is trust and its relation to social capital, focusing on questions about the meaning of trust, the sources of its formation, its beneficial and detrimental effects in various guises, and the relations among trust, social capital, and democratic consolidation. The second line of research is concerned with the systemic, institutional, and cultural roots of corruption, fraud, and dishonest behavior, and the problems stemming from promoting honesty and trust. Various authors explore different forms of dishonesty: political and administrative corruption, conflicts of interest, deception of business partners or the state, or the theft of others' property. These two research avenues have hardly been cognizant of each other, and the contacts and exchange of ideas between the exponents of these trends have been scarce. As a matter of fact, the above research lines are complementary, since the presence of generalized dishonesty and fraud can be viewed as a symptom and cause of a low level of social capital. While in some post-communist countries, widespread corruption was present before the advent of Soviet-style communism, in

others, it came about and spread with its imposition, and has continued after communism's collapse. The levels of corruption and fraud and their influence on the state became so worrying that many scholars began to speak about the "Latin-Americanization" of post-communist countries. This, however, is an inadequate and unfair generalization, because Latin America, like the post-communist world, is highly diversified in this respect, and the levels of social capital widely vary from Chile on one extreme to Bolivia on the other.

This book focuses on two main issues. First, it attempts to synthesize and appraise explorations of social capital, and particularly its origins. Second, it undertakes a comparative study of social capital between Latin America and East Central Europe, which we find similar in many meaningful respects. Owing to their historical and civilizational specificity, we have determined Russia, Ukraine, and Belarus to be beyond the scope of this study. Thus, the extent of the East Central European sample roughly coincides with the prevailing definition of this region in the literature on this topic.

The book is structured as follows. Chapter 1 deals with an overall ontological and epistemological framework, which broadly underpin this study. First, we characterize briefly a social system as a complex set, and then we take up the issue of culture and related concepts. Second, we turn to the problem of institutions and the game-theory approach. Finally, to overcome an overly narrow and reductionist application of neoclassical economics, we emphasize the necessity of a non-disciplinary approach, and we extend and modify behavioral assumptions.

Chapter 2 reviews and critically assesses the concept of social capital, as well as the relational and structural approaches to explore it. We also examine the interrelations

between social capital and trust, which is thought of as a main effect and manifestation of social capital. We opt for the attitudinal or relational conceptualization of social capital, understood as a set of moral and social norms, which foster mutually beneficiary cooperation among social agents. Consequently, social capital is a moral or rather ethical asset, and constitutes a necessary "input" for liberal constitutional democracy as well as an efficient and fair market economy to function. Social capital, which manifests itself in the radius of generalized trust, trustworthiness, reciprocity, honest behavior, fairness, and overall empathy, cannot be endogenously created by both polity and markets, but must anticipate both of them. Moreover, it has intrinsic value by itself as a component of a decent and just society.

Chapter 3 deals with the problem of historically remote sources of social capital, such as prevailing culture and religion, and generalized morality. First, we highlight the issue of time frames, distinguishing between short-term, fast-emerging, and long-term cumulative causes and outcomes in social processes. Second, by applying indicators of cultural dimension, we analyze the impact of cultural and civilizational patterns on social capital. The findings point out that social capital is negatively related to power distance and uncertainty avoidance, and positively to the degree of individualism. Moreover, it significantly depends on the degree of ethnic and cultural fragmentation. Third, we present and discuss the main issues concerning the influence of religion on social capital. Empirical evidence shows that other things being equal, Protestant and Protestantism-imbued countries are characterized by higher generalized trust than others. Social capital is also positively associated with the extent of generalized as opposed to limited morality.

In chapter 4 we discuss the explanations of the origin of social capital based on participation in civic voluntary associations, and the quality of formal institutions. First, drawing on a society-centered approach, we examine the controversial problem of the influence of civil society on social capital. On one hand, we downplay the critique of Putnam's (1993) theory about remote historical causes of social capital, but on the other hand, we do not share the view about civic associational volunteerism as a main cause of social capital. Although empirical evidence is ambiguous, it rather suggests a process of self-selection, leading from high social capital to civic volunteerism. Second, using the institutions-centered approach, we tackle the role of formal institutions in the generation of social capital. Especially, we focus on the issue of potential causality linkages between social capital, some historically remote factors, and formal institutions. Regression analysis suggests the predominance of remote cultural and religious dimensions over institutions. However, the most compelling model is that of co-evolution in which both generalized trust and institutions are jointly determined by underlying factors of co-evolution.

Chapter 5 outlines and compares the historical developments and cultural background of Latin America and East Central Europe, focusing on those characteristics and trends that might have affected the level of social capital. First, we delineate Latin America's specific cultural traits and historical trajectory, stressing both the colonial and post-colonial legacies and the institutional and cultural persistence in the form of a "neo-patrimonial state." Second, we focus on the long-term historical experiences of East Central Europe, highlighting the impact of four distinct empires, which over centuries dominated this region. However, the decisive and devastating consequences for social

capital were those of Soviet-imposed Communism. Third, we summarize both the resemblances shared by and the differences separating Latin America and East Central Europe. The former include economic underdevelopment, world peripheral position, illiberal democracy, deficient and partly premodern institutions, widespread corruption, crony capitalism, and low social capital. The similarities between these areas are contrasted to the differences, which consist mainly of a lower ethnic fragmentation, a more egalitarian income distribution, and highly unfavorable demographic trends in East Central Europe.

Chapter 6 is dedicated to the problem of social capital in Mexico and Poland at the regional level. First, following Putnam (1993), we analyze the long-lasting persistence of inter-regional differences in socio-economic development in the case of Poland. We show that in spite of meaningful and highly consequential historical disruptions (wars, partitions, shifts in political borders, changes in political and economic systems), these disparities, coming from the early Middle Ages, have in fact persisted up to the present. Consequently, the historical evolution of social capital has been strongly path-dependent. We also provide evidence that the regions more endowed with social capital have performed better in almost all aspects of systemic transformation in the 1990s. We also advance a model of historical path-dependence and institutional persistence, which satisfactorily fits Poland's long-term development. Second, Mexico's social capital is explored, utilizing the indicator of participation in voluntary civic associations. Interestingly, we found evidence indicating a close relationship between historically remote factors and present levels of socio-economic performance and social capital. Using both official and directly collected data from civic associations, we point out that

strong inter-regional differences in density of civic volunteering have been closely related to disparities in the level of development and ongoing urbanization, as well as educational patterns among the states of the federation. An impressive expansion in social volunteering during the 1990s has been closely associated with the process of catching up between various regions, and the diffusion of Protestantism. Protestant civic associations have experienced a much higher density than Catholic ones, and moreover, there has been a spillover from religious Protestant participation to other, non-religious volunteering activities.

In chapter 7 we describe and discuss the results of a comparative analysis of Mexico's and Poland's social capital at the individual-level. The corresponding data was obtained through the implementation of the surveys in the capitals of both countries under study, and social capital is assumed to be represented by trust and civic volunteerism in the form of unpaid work and charity donations. The novelty here is the application of more specific questions about trust, which allows distinction among ascribed, process-based, and generalized trust. According to studies at the macro level, our findings point out low levels of social capital in Mexico and Poland. Both countries display quite similar profiles of trust, characteristic of low-trusting developing societies, and minor inter-country divergences can be explained by some cultural differences. Likewise, they also show similarly "traditional" patterns of institutional trust, which is disaggregated into trust in implementing, representative, and monitoring institutions. The findings suggest that at the individual level, generalized trust is best explained by psychological variables related to feelings of personal happiness and an optimistic worldview. It is also significantly determined by institutional trust, level of education, and religious affiliation. However, a

greater civic volunteerism appears to be associated with lower inter-personal trust and subjective happiness. This apparent puzzle may be explained by resorting to the literature on social psychology.

Finally, chapter 8 concludes the study.