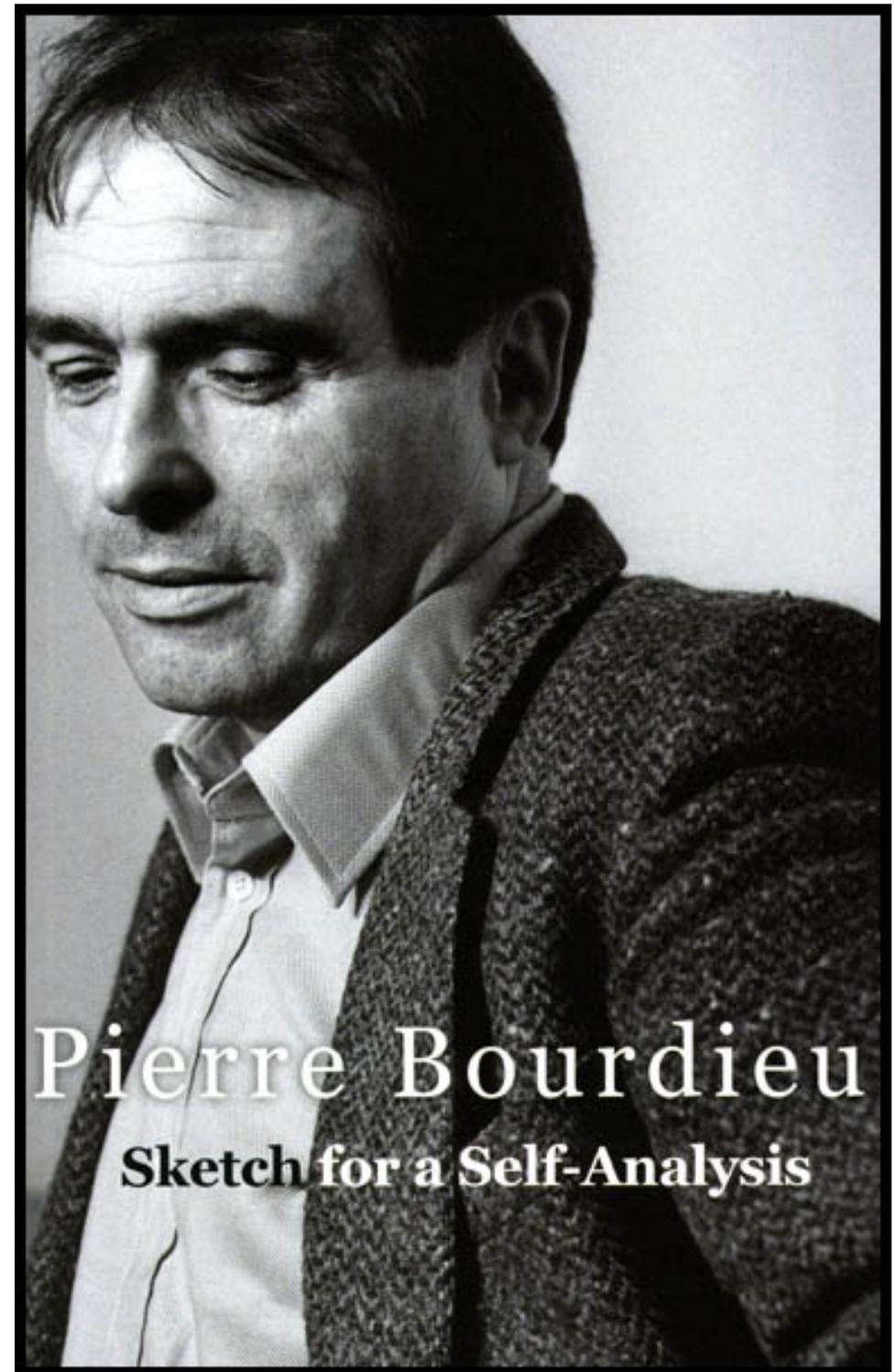


Networks and social capital

Lecture notes for the course of Economics and Policy of Networks
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- **Pierre Bourdieu** (1930-2002) was a French sociologist, whose work was primarily concerned with the dynamics of **power** in society, and especially the ways in which:
 - power is transferred
 - and social order is maintained within and across generations.
- Bourdieu was one of the first sociologists who tried to connect his theoretical ideas with **empirical research**.
- He extended the idea of capital to categories such as **social capital**, **cultural capital**, and symbolic capital.



Networks and capital in Bourdieu's thought

- For Bourdieu each individual occupies a position in a multidimensional social space;
- She is not defined only by social class membership, but by **every single kind of capital she can articulate through social connections**.
- **That capital includes the value of social networks, which, as Bourdieu showed, could be used to produce or reproduce inequality**.

Networks and capital in Bourdieu's thought

- Bourdieu (1986): “**Capital is accumulated labor** (in its materialized form or its “incorporated,” embodied form) which, when appropriated on a private, i.e., exclusive, basis by agents or groups of agents, enables them to **appropriate social energy** in the form of reified or **living labor.**”
- “It is a *vis insita*, a force inscribed in objective or subjective structures, but it is also a *lex insita*, **the principle underlying the immanent regularities of the social world.**”

Source: Bourdieu, P. (1986). The Forms of Capital. In: Richardson, J., *Handbook of Theory and Research for the Sociology of Education*. Westport, CT: Greenwood, pp. 241–58.

Bourdieu's critique of economic theory

Bourdieu's critique of economic theory

- **Path dependency and persistence of capital**
“Capital takes time to accumulate and, as a potential capacity to produce profits and to reproduce itself in identical or expanded form, contains a tendency to persist in its being”.
- **“The structure of the distribution of the different types and subtypes of capital at a given moment in time represents the immanent structure of the social world, i.e., the set of constraints, inscribed in the very reality of that world, which govern its functioning in a durable way, determining the chances of success for practices”.**
- In other words, this means that **the shape of a society basically depends on the distribution of the property of the different types of capital.**

Bourdieu's critique of economic theory

- “It is in fact impossible to account for the structure and functioning of the social world unless one reintroduces capital in all its forms and not solely in the one form recognized by economic theory”.
- In other words, Bourdieu blames economics because:
 - 1) **it forgot to analyze the role of social capital, cultural capital, and symbolic capital.**
 - 2) As a result, the *homo oeconomicus* – the super-rational and perfectly informed agent that is considered as representative of the whole society in economics – actually is **under-socialized** (or, in the words of Amartya Sen, “a social idiot”).

Bourdieu's critique of economic theory

Are non-economic exchanges “disinterested”?

- Bourdieu claims that economic theory, “by reducing the universe of exchanges to **mercantile exchange**, which is objectively and subjectively oriented towards the maximization of profit, i.e., self-interested, it **has implicitly defined the other forms of exchange as noneconomic, and therefore disinterested**”.

Bourdieu's critique of economic theory

- In doing so, Bourdieu affirms, economic theory ends up claiming that “disinterested” exchanges give rise to the accumulation of immaterial forms of capital such as cultural capital and social capital – and vice versa.
- In fact, in economics: “The class of practices whose explicit purpose is to maximize monetary profit cannot be defined as such without producing the purposeless finality of cultural or artistic practices and their products”.

Bourdieu's critique of economic theory

- Actually, the mainstream economics Bourdieu refers to describes virtually any form of exchange as self-interested and economically relevant – see for example the work of Gary Becker (1976; 1996).

Bourdieu's critique of economic theory

- According to Bourdieu, the fact that economic theory has taken for granted “the very foundation of the order it claims to analyse” has prevented the constitution of a general economic science, which would treat mercantile exchange as a particular case of exchange in all its forms.
- This is a strong critique that has been later generalized by Marxist (and other heterodox) economists, but it must be noted that **investigating the deep social roots of economic action and the deep economic motives of seemingly disinterested “social” actions basically is what behavioral economics does.**
- More in general, the interest in the social embeddedness of the economic action is thoroughly incorporated in political economy, and not from today.
- Interestingly, **heterodox economics has never acknowledged behavioral economics as a true form of heterodoxy** or, at least, as a desirable evolution of “traditional” political economy.

Bourdieu's critique of economic theory

- “A general science of the economy of practices, capable of reappropriating the totality of the practices which, although objectively economic, are not and cannot be socially recognized as economic, and which can be performed only at the cost of a whole labor of dissimulation or, more precisely, euphemization, **must endeavor to grasp capital and profit in all their forms and to establish the laws whereby the different types of capital (or power, which amounts to the same thing) change into one another**” → social capital
- **At a first glance, one could argue that *Bourdieu first theorized the “need” of an economics imperialism.***
- Reappropriating the totality of practices is, in fact, what heterodox economists and other social scientists often reproach mainstream economics for.

Networks in economics

- Traditionally, social structures were viewed as important just in **backward economies**: the mainstream idea was that with industrialization, modernization, economic development, this role gradually declines and eventually disappears.
- Similarly, trading restrictions were viewed as a departure from perfectly functioning markets where everyone can trade with everyone else on common prices.
- The most well known exposition of this argument is “The Great Transformation” by Karl Polanyi.

Networks in economics

- Until the 1970s economics was based on an acceptance of this view.
- Economists took the view that economic activity takes place between
 - Anonymous, representative, agents
 - who meet in centralized markets
 - and trade at common prices.These agents actually are undersocialized.
- General equilibrium theory, oligopoly theory, the theory of search and matching frictions, epitomize this approach.
- This theory yields deep insights and it has been very successful, but...

Networks in economics

- The 1970s asymmetric information revolution: economists realized that **economic exchange takes place in the shadow of imperfect and asymmetric information**.
- Buyers do not know the quality of products they buy, and the seller knows more.
- Banks do not know the quality of the projects they fund, while the entrepreneur knows more.
- Managers do not know the effort that workers exert, and must reward them based on imperfect signals such as output.

Networks in economics

- Economic growth takes place due to technological change. Firms, farmers and consumers adopt new products under imperfect information of their profitability.
- **Institutions – formal and informal -- play a key role in mitigating these information problems.**
- **Among informal institutions, networks are a key channel for the transmission of information.**

Networks in economics

- In addition to the effect of imperfect information, **agents' rationality is limited** in several ways. We do not always do (or even know) what is in our best interest!
- **Altruism, reciprocity, moral norms** play a role.
- **Peer effects, social image concerns, social pressures.**
- **Culture, religion, shared beliefs (e.g. on the trustworthiness of others and on the moral obligation to trust others or not).**

Networks in economics

- The realization that informal institutions and culture are very important led to a revolution in contemporary political economy (and, more in general, economics):
- Three key elements:
 1. individual identity is important.
 2. patterns of interaction between individuals are crucial.
 3. As well as their culture.
- These elements have fuelled modern research on networks and culture in economics.

The embeddedness of the economic action before modern economics

- But the social and institutional embeddedness of the economic action is not a “novelty” in economics. We do not owe it to Becker or Stiglitz or North or to the behavioral economics. For example, the acknowledgement (and attempt to analyze) the embeddedness of the economic action also pervades the classical economists’ work, from Smith to Mill, Bentham and Marx.

Networks, norms and culture in classical economics - Examples

- In the *Theory of Moral Sentiments*, Smith (1759) argued that there were certain virtues, such as trust and a concern for fairness, that were vital for the functioning of a market economy. He described trust and reciprocity as critical foundations of the early beginnings of the market, allowing reciprocal gift exchange to emerge, and leading to trade.
- In the *Principles of Political Economy*, John Stuart Mill (1848) shared the belief that trust plays a fundamental role in the economic performance of nations

Networks, norms and culture in classical economics - Examples

- As Bentham (1781) used it, utility refers to pleasure and pain, the “sovereign masters” that “point out what we ought to do, as well as determine what we shall do” (Kahneman et al., 1997).
- Bentham explained how the pleasures and pains enjoyed and suffered by others are fundamental sources of human satisfaction and dissatisfaction. “The pleasures of malevolence are the pleasures resulting from the view of any pain supposed to be suffered by the beings who may become the objects of malevolence”. “The pains of malevolence are the pains resulting from the view of any pleasures supposed to be enjoyed by any beings who happen to be the objects of a man’s displeasure” (Bentham, 1781, pp. 37-40).

Networks, norms and culture in classical economics - Examples

- Marx explained the “relative” nature of utility in his early work on wage, labour, and capital: “Our **wants and pleasures have their origin in society**; we therefore measure them in relation to society; we do not measure them in relation to the objects which serve for their gratification. Since they are of a social nature, they are of a relative nature” (Marx, 1847, p. 45).
- A few years later, Veblen (1899) introduced the concept of ‘**conspicuous consumption**’, serving to impress other persons.

Some examples

- In modern economics, networks and culture are claimed to have a CAUSAL, statistically significant and remarkable influence on:
- The performance of institutions.
- Education and investments in human capital.
- Transactions requiring trust – e.g. in the credit market, in the second-hand market, etc.
- Entrepreneurship.
- Job matching.
- Labour market regulation.
- The design of the welfare state.
- The redistribution of income.
- Economic growth.
- Health.
- Happiness.
- Consumption habits
- Saving habits
- Fertility
- Productivity

To name just a few

Bourdieu's theory of social capital

Bourdieu's theory of social capital

- After that critique to economic theory, Bourdieu states that capital can presents itself in 3 fundamental forms:
 - 1) **Economic capital**: which is immediately and directly convertible into **money** and may be institutionalized in the form of **property rights**.
 - 2) **Cultural capital**: which is convertible, in certain conditions, into economic capital and may be institutionalized in the form of **educational qualifications**.
- It is worth noting that Bourdieu's notion of cultural capital does not refer to the concept of culture. Rather, it is similar to what economists call "**human capital**" (a category that Bourdieu explicitly dislikes).

Bourdieu's theory of social capital

- 3) **Social capital**: made up of social obligations and connections, which is convertible, under certain conditions, into economic capital and may be institutionalized in the form of a title of nobility.
- Any idea of ways in which connections can be converted into economic capital?

Bourdieu's theory of social capital

- “Social capital is the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition—or in other words, to membership in a group”.
- Groups provide each of its members with the backing of a **collectively owned capital**, a “credential” which entitles them to credit, in the various senses of the word.
- How many of this kind of groups do you belong to?

Examples

- Voluntary associations
- Political parties
- Trade unions
- Civil rights movements
- Terrorist groups
- Sport clubs
- Chess clubs
- Football teams
- Self-help groups
- Circles of friends
- The family
- Colleagues
- The mafia
- Masonry
- Religious groups
- Online forums of discussions
- Facebook groups
- Facebook informal circles
- Whatsapp groups
- Twitter private groups

During the course, we will address the behavior and the economic outcomes of these networks' action.

Bourdieu's theory of social capital

- **“The volume of the social capital possessed by a given agent thus depends on:**
 - **the size of the network of connections he can effectively mobilize**
 - **and on the volume of the capital (economic, cultural or symbolic) possessed in his own right by each of those to whom he is connected.”**
- **“The profits which derive from membership in a group are the basis of the solidarity which makes them possible”** (this definition is very well psychologically grounded).

The accumulation of social capital

- The existence of a network of connections “is the product of an endless effort to produce and reproduce lasting, “*useful relationships*” that can secure material or symbolic profits.
- Do you see any point of contact with rational choice theory (in economics and sociology)?

The accumulation of social capital

- The creation and maintenance of networks:
 - Are the result of **rational investment decisions**
 - In conditions of **uncertainty** (will we be able to “convert” the social capital we acquire into economic capital? At what cost?)...
 - ... and **highly imperfect information** (Do we know the endowments of the other types of capital of each member of the network? Do we have reliable information on its convertibility and transferability?).
 - Material and symbolic profits **are not necessarily pursued as such in a conscious way** (limited rationality? Creation of social capital as a by-product of other, sometimes really disinterested, activities).

The accumulation of social capital

- **“In other words, the network of relationships is the product of investment strategies, individual or collective, consciously or unconsciously aimed at establishing or reproducing social relationships that are directly usable in the short or long term;**
- i.e., at transforming contingent relations, such as those of neighborhood, the workplace, or even kinship, into relationships implying durable obligations
 - subjectively felt (feelings of gratitude, respect, friendship, etc.)
 - or institutionally guaranteed (rights)”.

The conversion of capital

- The different types of capital can be derived from economic capital, but only at the cost of a more or less great effort of transformation.
- For example, there are goods and services to which economic capital gives immediate access, without secondary costs;
- others can be obtained only by virtue of a social capital of relationships (or social obligations) which **cannot act instantaneously**, at the appropriate moment.
- In most cases, social capital needs effort and time to be “activated” and transformed.
- In contrast to the transparency of economic exchange, in which equivalents change hands in the same instant, social exchange is intrinsically ambiguous and presupposes a more subtle economy of time.

The conversion of capital

- The universal equivalent, the measure of all equivalences, is nothing other than **labor-time** (in the widest sense);
- The conservation of social energy through all its conversions is verified if, in each case, one takes into account both:
 - 1)** the labor-time accumulated in each form of capital
 - 2)** the labor-time needed to transform it from one type into another.
- The convertibility of the different types of capital is the basis of the strategies aimed at ensuring the reproduction of capital (and the position occupied in social space)

Bourdieu's theory of social capital

- The individuals' ability to invest in social capital crucially depends on their human capital:
- “The reproduction of social capital presupposes an unceasing effort of sociability, a continuous series of exchanges in which recognition is endlessly affirmed and reaffirmed.
- This work, which implies expenditure of time and energy and so, directly or indirectly, of economic capital, is not profitable or even conceivable unless one invests in it a **specific competence** (knowledge of which connections are valuable and skills at using them, etc.) and an acquired disposition to acquire and maintain this competence, which are themselves integral parts of this capital.
- In other words, investments in social capital require human capital, always in very specific forms.

Idea for a research work

- Testing the correlation between individuals' human capital and their ability to establish and preserve networks of connections could be a good exercise for a paper.
- More in general, it could be interesting to test whether membership in certain types of network (e.g. the networks you belong to) have specific economic and/or social outcomes – both at the macro and micro level.

Bourdieu's theory of social capital

- The accumulation of social capital can reproduce inequalities.
- The profitability of this labor of accumulating and maintaining social capital, in fact, rises in proportion to the size of the capital - i.e. the size of the network(s) and the volume of the various forms of capital possessed by those in the network(s).
- Because the social capital deriving from a relationship is that much greater to the extent that the person who is the object of it is richly endowed with capital (mainly social, but also cultural and even economic capital), the possessors of an **inherited social capital** (symbolized, for example, by a great name), are able to transform all circumstantial relationships into lasting connections.
- Reflection: social capital as a double-sided sword.

A note on cultural capital

- Cultural capital can exist in 3 forms:
 - long-lasting dispositions of the mind and body.
 - objectified state, in the form of cultural goods (pictures, books, dictionaries, etc.), which are the trace or realization of theories or critiques of these theories, problematics, etc.
 - institutionalized state, a form of objectification which must be set apart because, as will be seen in the case of educational qualifications, it confers entirely original properties on the cultural capital which it is presumed to guarantee.

Research questions

- Is it possible to empirically ascertain the relationship between social capital and economic capital *at the individual level*? (there are only a few empirical and theoretical studies in economics).
- Are all social networks alike in the creation of “material profits” and, more in general, of tangible benefits? (only a few empirical studies, in political science).
- Do networks contribute to the economic welfare of a community (e.g. a nation)? (widely investigated topic in economics; publications in top journals).

Examples of possible exam questions

- Briefly summarizes Bourdieu's critique to economics.
- Describe Bourdieu's definition of social capital.
- Which is the relationship between the different forms of capital (e.g. economic capital, human capital and social capital) in the work of Bourdieu?
- How is social capital accumulated (according to Bourdieu)?
- Explain why social capital could support the crystallization of inequalities.

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Highlights

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Thank you!