

Formal institutional solutions to the development of social capital

David J. O'Brien

Introduction

More than two decades ago, James Coleman (1988) wrote his oft-cited article in the *American journal of sociology* on "Social capital in the creation of human capital". Coleman's thesis, backed by numerous examples from empirical research, was that human capital is created, to a considerable degree, by social capital and thus *indirectly* social capital plays a very crucial role as an engine of economic development. Families, communities, and nations that perform better economically than their peers share some common traits that fall under the rubric of social capital. This includes the ability of their members to *trust* one another so as to reduce transaction costs and to increase the success of collective action (Coleman 1988; Putnam 1993), as well as the ability to build *bridges* to material resources, information, and political support outside of the group (Woolcock 1998).¹

This concept has been so powerful that the World Bank, long dominated by economists, made social capital an important focus of its academic discussions in the last decade of the twentieth century (Dasgupta 2000). Nonetheless, the major limitation of social capital as an explanatory concept remains; how can social capital itself be created where it is weak or non-existent? The purpose of this paper is to answer this question by

focusing on the role of *formal institutions* in generating, strengthening or, alternatively, weakening and ultimately destroying social capital.

The first part of the paper will examine three sources of resistance to recognising the role of formal institutions in the creation or strengthening of social capital: (1) the implicit assumption that bridging ties must be "weak ties"; (2) the focus on "path dependencies" rather than "path alternatives"; and (3) the implicit assumption that informal institutions are causally prior to formal institutions. The second part of the paper will propose an alternative approach to social capital creation that draws upon the economist's notion of competition in the market-

place and how formal institutional arrangements affect the relative position of different parties in that environment (Miller 1992, pp.17–18,27–35; North 1991).

Two types of situations that are analogous to the marketplace situations studied by economists are relevant to understanding the problems some groups face in trying to develop social capital. The first is where extant institutional arrangements create a distinct competitive advantage for some groups to develop their social capital while hindering the social capital development of other groups. The second condition is where the inability of groups to generate social capital creates substantial negative externalities or the loss of potential posi-

David O'Brien received his PhD from Indiana University and is Professor of Rural Sociology, University of Missouri, USA. He has conducted surveys and published books and journal articles on neighbourhood organisation, ethnic identification, Native American Tribal colleges, adaptation strategies of households in pre- and post-Soviet Russia, and small-holder dairy co-operatives in East Africa. He has received funding from the National Science Foundation, the National Institute of Mental Health, and the Ford Foundation.
Email: obriendj@missouri.edu

tive externalities for a larger “public” and thus formal institutional intervention is legitimised on the basis of providing a greater public good.

The third part of the paper will discuss a successful effort to create a formal institutional solution to developing social capital in groups that historically have had difficulties in this area, especially with respect to building bridging social capital. The Tribal College and University Program that is supported in part by the United States Department of Agriculture is an institutional adjustment that is intended to mitigate the negative externalities for the larger American society that result from the destruction of Native American culture, in terms of both personal and social disorganisation and lack of integration into the global economy. The final section will discuss the relationship between formal institutions, social capital formation, liberal democracy, and globalisation.

Barriers to understanding the role of formal institutions in social capital formation

The focus on formal institutional arrangements, rather than the traditional starting point of informal institutions, requires a fundamental shift in the way that sociologists think about social capital. The first barrier in this regard is the “conventional wisdom” that social capital bridging ties must be “weak ties”. This view leads scholars to focus on the cultural support or opposition to weak ties and thus to turn our attention away from the manner in which formal institutional arrangements might enhance or hinder the development of alternative types of bridging ties that can be based on strong as well as weak ties.

Weak ties, strong ties, and bridging social capital

Michael Woolcock (1998) makes a critical distinction between bonding and bridging social capital. Bonding social capital refers to the kinds of relationships, usually of a close personal nature, that provide human beings with a sense of identity and belonging and assists them in meeting basic needs for material and social support. Typically, such bonding takes place in intimate “strong tie” set-

tings of family, kin, and community. Bridging social capital refers to social relationships that permit persons and groups to link to outside sources of information, political support, and material resources.

The focus of most scholarly analyses has been on the strong positive correlation between the presence of bridging social capital and economic development. Intuitively, this makes sense, insofar as the ability of a group to access new sources of information, political support, or material resources depends on its ability to build more extensive social relationships. In these discussions, however, bonding social capital tends to get short shrift, except when it is defined as a *barrier* to the development of bridging social capital.

This is seen, for example, in Edward Banfield’s (1958) classic study of how exclusive dependence on kin ties and the absence of bridging ties kept southern Italy economically and politically less developed than the northern part of the country. In Banfield’s interpretation, it is clear that the villain is the highly dense “amoral familistic” ties of southern Italians and that these ties are seen as the major obstacle to the building of a civil society and an economic market free from corruption. More recently, a well-designed comparative study by Robert Putnam (1993) illustrates how the lack of bridging ties among southern Italians placed them at a considerable disadvantage vis-à-vis their northern countrymen, even when both had access to the same newly devolved governmental institutions.

The studies just referred to lend support to the notion that cultures that promote a high degree of “civic culture”, such as that of northern Italy, provide encouragement for what Granovetter (1973) calls the “strength of weak ties” that, in turn, provide bridges to information and resources. Alternatively, cultures, such as that of the southern Italians, actively discourage the development of “weak” bridging ties. Instead such groups encourage individuals to put all of their energy into the maintenance of highly dense and strong emotional ties to family groups, which makes collective action based on cooperation between these small groups very difficult (Gans 1962).

This view of bridging social capital as dependent on cultural support for weak tie relationships receives considerable empirical support from studies as far ranging as the “moral economy” of peasant societies (Scott 1976) and comparisons between the associational lives of rural versus met-

ropolitan residents in United States (Fischer 1982). Peasants in less economically developed nations and rural persons in the United States, it is argued, are less able to participate effectively in the global economy because their exclusive dependence on highly dense kin-dominated networks prevents them from accessing diverse sources of information and material resources.

The association between the political impotency of the West End Urban villagers (Gans 1962) and that of their counterparts in southern Italy (Putnam 1993) and their lack of bridging ties is not open to question, but the assertion that bridging ties *must* be “weak ties” is difficult to support with empirical evidence. Although all of the examples of bridging social capital in the Granovetter (1973) article are of weak ties, there is a large body of research literature showing that strong ties also can be elements in bridging ties *under certain conditions*. Coleman’s (1988) classic overview of social capital, for example, notes that the vertical integration of the international diamond trade through the strong ties of Hassidic Jews is based on strong religious/ethnic and family/kin linkages. Similarly, the “petit bourgeois” or small business research literature, which focuses on an increasingly important economic niche in the global economy, emphasises the role of family, kin, and ethnic *strong ties* in building vertically integrated economies (Bechhofer and Elliot 1981; Sanders and Nee 1998).

The role of strong ties in building bridging social capital is also seen in the development of *ethnic economies* in fruit and vegetable production and sales among Japanese Americans in the West Coast. The linkages between producer, processors, and sellers are based on strong “quasi-kin” ties (Fugita and O’Brien 1991; Light 1972). *In short, strong bonding ties in themselves are not necessarily a barrier to the development of bridging social capital.*

A specification of the *conditions* under which strong ties can be effective in building bridging social capital is found in Mancur Olson’s (1971) discussion of the *federated strategy* used in forming successful collective action, such as agricultural cooperatives. He notes that although strong tie small groups by themselves are ineffective in developing bridging ties, several small strong tie groups, each of which is held together by strong *bonding* ties, can combine together to pursue a collective goal. Olson states:

Thus, organizations that use selective *social* incentives to mobilize a latent group [i.e., a large aggregate of persons with common interests] must be federations of smaller groups. The more important point, however, is that social incentives are important mainly only in the small group, and play a role in the large group only when the large group is a federation of smaller groups. (Olson 1971, p.63)

What Olson calls “social incentives” are exactly the same as “bonding social capital” – that is, strong affective bonds that provide support and/or identification to individuals and which typically are found in small groups. This is not to say, of course, that the federated group is the only solution to what Olson terms the “public goods problem” (i.e., inducing individuals to contribute to “non-divisible” collective goods). In fact, most of his book focuses on the two more common organisational strategies employed by large aggregates (latent groups) in the United States, namely *coercion* and *selective incentives*.² The key point is that it is possible to develop effective large-scale collective action that involves bridges to outside resources, information, and political power, through a federated organisation of small groups, each of which is held together by strong *bonding* ties. The empirical data shows that there are many alternative paths through which bonding and bridging ties can be connected to one another.

Path dependencies versus path alternatives

The second barrier to examining the impact of formal institutions on social capital creation is the often times implicit assumption that a “path dependency” is relatively fixed. While the social scientists who have contributed to our understanding of path dependency, such as Weber (Gerth and Wright Mills 1946), North (1991), and Grief (1998), have been careful to note the specific historical points in which the “paths” of social and economic development in different nations took dramatic turns in direction, the popular understanding of path dependency tends to focus on the limitations rather than the opportunities offered by different cultural traditions.

An excellent illustration of *alternative* paths is found in Ronald Dore’s (1986) study of how Japan emerged as the dominant player in the post-Second World War international textile market. His study shows how Japan’s economic might was

built upon a very deliberate and unique melding together of western technology and Confucian-based *iemoto strong tie* relationships. These long-term ties between various governmental and private actors in the supply chain permitted the nascent Japanese textile industry to survive the ups and downs of fluctuations in that market much better than their western competitors.³

Another example of alternative paths to the creation of successful bridging capital is found in a comparative study of rural community leadership (O'Brien *et al.* 1991, 1998). This study employed a quasi-experimental research design that compared the social network characteristics of leaders in communities that, on the basis of objective criteria, differed markedly in their ability to collectively respond to economic crises. The structural characteristics of leaders' networks in the two most successful communities were almost exactly the same, in terms of bridges to outside sources of information and material resources as well as their internal networks that provided their capacity to cooperate with one another on specific community projects. Most striking, however, was the divergent paths through which leaders in the successful communities created their structurally similar network ties. In one German Catholic community, leaders' networks were built and maintained largely through kin ties and informal socialising, whereas in an Anglo-Protestant community these networks were built largely through formal associational involvement, with very little informal socialising or kin connections.

This is not to suggest that there are no costs involved in alternative paths to building bridging social capital. The problems that the Japanese economy faced in the 1990s that observers attributed to an unwillingness of large banks to cut off bad loans, for example, is rooted in the same culturally-based strong tie relationships that fostered success in the textile industry in an earlier period. Nonetheless, the key point is that there is not a one size fits all path to bridging social capital but rather alternative paths, each of which carry both costs and benefits.

Causal relationships between informal and formal institutions

The third barrier to understanding the role of formal institutions in the creation of social capital

is the implicit assumption, commonly held by sociologists, that formal institutional arrangements must be preceded or "embedded" in the development of certain types of informal institutional arrangements (Granovetter 1985). This assumption creates the impression that adjustments in formal institutional arrangements are likely to fail unless they have been preceded by some type of adjustment in the culturally based foundations of informal institutional arrangements.

There is, however, ample evidence that the causal relationship between informal and formal institutional development can operate in the other direction. Mancur Olson's description of the creation of the Farm Bureau Cooperative, for example, illustrates how formal institutional arrangements can stimulate the growth of social capital. Although it might seem that the Farm Bureau was built upon the informal social capital of rural communities, an idea that the Bureau itself likes to promote, in fact it was created with substantial assistance from County Extension Agents. The County Agents, whose positions were funded by the state and federal governments and affiliated with land grant state universities, used their technical skills to help develop an insurance programme that provided the "selective incentives" for individual farmers to buy insurance through the Co-Op and thus to pay for the costs of lobbying efforts as a "by-product".⁴

The Farm Bureau, which is now the largest of the farm organisations, and the only one with a nationwide membership, was from the very beginning completely different from other farm organisations. The Smith-Lever Act of 1914 provided that the federal government would share, with the states, the cost of programs for providing what have come to be called "county agents", who furnish farmers information on improved methods of husbandry developed by the agricultural colleges and agricultural experiment stations. Many of the state governments decided that no county could receive any government money for a county agent unless it organised an association of farmers that would be evidence of an interest in getting more information on modern agricultural methods. These county organisations came to be called "Farm Bureaus". (Olson 1971, p.149)

More recently the European Union's Leaders' Program has effected similar improvements in social capital formation in rural regions of Western and now Central/Eastern Europe (Leaders' Program 2006). Other examples of the impact of formal institutional change on social capital development are found in the transition from socialism

in East/Central Europe (Turnock 1998) and the former Soviet Union (O'Brien and Wegren 2002). While the relationships between informal and formal institutional sources of social capital are very complex and differ markedly from one country to another it is clear that even newly created institutional arrangements can stimulate social capital development in a relatively short period of time. This is illustrated by a panel and time series studies of rural households in Russia during the 1990s and the first decade of the twenty-first century.

Following the collapse of the Soviet Union, the survival strategies of rural households in Russia employed the social capital that was most readily available to them, household and other highly dense network ties. During the politically and economically tumultuous Yeltsin years, these households generally eschewed efforts to expand their networks. Following the election of Vladimir Putin and the political and economic stabilisation of Russia, however, these same households began to expand their social networks. This shift in use of social capital was a direct result of a shift in the formal institutional environment (O'Brien and Patsiorkovsky 2006).⁵

Finally, as pointed out in the research of DeSoto (2000), Skocpol (1995, 1996), and Stiglitz (2002), an exclusive focus on the causal priority of informal institutions tends to create a mind-set of "blaming the victims", in which the failure of groups to organise collectively rests upon them alone, thereby reinforcing an already strong inertia against reform. Alternatively, when the role of government in both destroying and building social capital is recognised, then there is an opportunity to develop analytical models that will identify ways to overcome social capital deficits.

The critical problem that remains, however, is what shape will that analytical model take? A useful model is to view any group's challenge in building and/or maintaining its social capital to be analogous to the challenge that firms face in competing in the marketplace. As the New Institutional Economists have correctly pointed out, competition in the marketplace is not merely a matter of the resources – e.g., human and physical capital – actually or potentially available to the firm but also depends to a considerable degree on formal institutional arrangements and third party enforcement of these arrangements (North 1991). Two areas of particular relevance here are: (1) the extent to

which a given institutional arrangement provides advantages or disadvantages, whether intentional or unintentional, to one group but not another; and (2) the extent to which an unregulated market may create negative externalities and/or prevent the realisation of positive externalities for the public at-large, thus preventing the production of a public good.

Formal institutions and competition in the social capital marketplace

In the twentieth century, economic policies, in the wealthy nations of Europe and North America, moved away from a purely laissez faire approach to the gradual legitimisation of limited government involvement. Some of this justification was based on the notion of overcoming market failures and making markets more efficient (Miller 1992, pp.17,18,27–35), but the rationale for other formal institutional adjustments was based, in part at least, on the goal of giving groups with weak bargaining power a greater competitive position. During the New Deal in the United States in the 1930s, for example, this involvement took the shape of institutional adjustments (e.g., the Wagner Act and the National Labor Relations Board) that provided historically weak groups with the power to bargain collectively and thus to have countervailing power vis-à-vis powerful corporations, such as the large steel and auto companies.

A similar problem of competitive disadvantage is found among some groups that have a more difficult challenge than others in building their social capital. This is illustrated in Jeffrey Reitz's (1980) comparative study of ethnic groups in the same society. In many ethnic groups, the bonding that individuals have to the ethnic community is weakened as they become more assimilated into the mainstream of the larger society. These ethnic communities identify themselves by specific language, religious customs, or other characteristics that are lost as persons become assimilated into the mainstream society. For persons in these groups, then, there is a zero-sum choice between retention of ethnicity versus becoming part of the larger society. Not surprisingly, in such a situation, many members of these groups, especially in the first generation, will resist developing "weak" bridging ties to the "outside world" simply because these ties are seen as threatening to the bonding ties that shape their identity.

However, Reitz (1980) finds that other ethnic communities do not experience this same zero-sum relationship between the retention of ethnicity and assimilation into the mainstream society (i.e., a type of bridging social capital). Some American immigrant groups, for example Jewish- and Japanese-Americans, have managed to combine high levels of ethnic community retention or bonding social capital, while at the same time participating in mainstream associational life and having high inter-marriage rates (i.e., high levels of bridging social capital). The bonding social capital of groups of this type rests much more on a distinctive sense of "people-hood" (Castile 1981) than on specific language or religious customs and beliefs, as evidenced by the considerable variability in religiosity and practice among members who are equally vehement about the ethnic component of their identity or bonding.

Although the more traditional members of this second type of ethnic group, especially in the earlier generations, will resist assimilation as strongly as members of the first type of ethnic community referred to earlier, the relationship between bonding and bridging is not as likely to approach a zero-sum game for the group as a whole. Thus, for example, even though inter-marriage rates among Japanese Americans have approached 60 per cent, the level of associational involvement in the ethnic community remains quite high, even among those who have intermarried. In one study, half of the inter-married Sansei (third generation) belonged to at least one Japanese American Organisation (Fugita and O'Brien 1991, p.134).

The first type of ethnic group, however, is likely to require some type of formal institutional arrangements that maintain their bonding social capital while, at the same time, providing a mechanism with which they can build bridging social capital outside of their community. Formal institutional arrangements that encourage the development of federations of small tight knit groups will be most favourable to the interests of this type of ethnic community where bonding social capital requires a high degree of endogamy and where there is a great deal of suspiciousness of weak tie bridges to "strangers". This was precisely the type of institutional arrangement that supported the development of the "political machines" that organised the European ethnic immigrants in American cities in the nineteenth and early twen-

tieth centuries. The institutional arrangement of ward-based elections of aldermen, for example, maximised the strength of highly endogamous and geographically segregated ethnic communities (Banfield and Wilson 1963, pp.116–127; Handlin 1951, pp.201–226; O'Brien 1975, pp.35–42).

An example of how changes in formal institutional arrangements can weaken the bridging social capital of groups that depend almost exclusively on strong ties is found in the reform movement during the Progressive era in the early twentieth century. This movement ostensibly was designed to end corruption in municipal government, but as historians have pointed out it was in fact part of a larger struggle between middle- and upper-class, largely white Anglo Saxon Protestant groups and the largely working-class Irish, southern and Eastern European immigrant Catholic groups over formal institutional arrangements that would support or hurt their respective interests. Specifically, the reformers were attempting to introduce new formal institutional arrangements, such as at-large voting for alderman and the elimination of patronage (a form of "selective incentives" used by machine politicians) that would, in effect, weaken the federated strategy that had linked together the individual ethnic neighbourhoods, each of which was bound to its respective alderman by strong bonding ties, and thereby provided each of the constituent groups with access to bridging capital in municipal politics (Hofstadter 1955).

In short, the existence and maintenance of formal institutional arrangements and/or alterations in those arrangements have significant effects on the capacity of different groups to maintain or enhance their social capital.

Formal institutions, externalities, and social capital formation

In economic theory another justification for altering existing formal institutional arrangements is when an activity in the marketplace has significant consequences for parties that are not part of the transaction. Negative externalities associated with an unrestricted marketplace might include, for example, air and stream pollution that results from an industrial production process and mitigating these harmful effects to the public might be used as justification for regulation and/ taxation of the pol-

luting by-product of the industrial production process. There is, of course, considerable debate among economists as to the appropriate mechanism for intervention or if any intervention might cause more harm to the economy than the negative externality to which it is addressed. Nonetheless, the subject of negative externalities remains an important issue for discussion in institutional economics.

An illustration of a positive externality would be the potential attraction into the marketplace of a new production process or service that requires additional skills of a local labour force. Such an eventuality might then be used as a justification for public expenditures and the development of new institutional arrangements, such as public financing of training facilities. The variety of relationships between marketplace activities, human capital development, and positive externalities is a central concern of institutional economics (e.g., Becker 1964).

Similarly, the production, or lack of production, of social capital can produce both negative and positive externalities. Personal and social disorganisation, for example, can result when a given group is unable either to retain crucial bonding social capital and/or has difficulty building bridging social capital within existing institutional arrangements. Potential positive externalities would include general societal gains in human capital formation that are produced by a programme to promote social capital formation that, in turn, would lead to improved economic performance of the economy as a whole.

The positive externalities achieved by facilitating the development of a group's social capital have been spelled out in numerous research studies, especially those of James Coleman (1988) who demonstrated empirically how higher levels of social capital in families, neighbourhoods, and schools facilitates the development of human capital which, in turn, leads to higher overall national economic growth.

An example of the negative externalities that can result from a formal institutional arrangement that limits a group's ability to maintain its own social capital is found in the case of Native Americans in the latter part of the nineteenth and early part of the twentieth centuries. The prevailing view of the Bureau of Indian Affairs, the agency of the US Federal Government in charge of dealing with Native Americans, during that time period operated

under the assumption that there was a zero-sum relationship between maintaining Indian culture and assimilation into mainstream European-White American culture. A formal institutional arrangement designed to meet this objective was the boarding schools in which young Native American students were to be completely acculturated into "white ways". This included cutting their hair and a prohibition against the use of Native American language and/or religious ceremonies.

The net result of this institutional arrangement, however, was a dramatic increase in suicides among Native American youths, a breakdown of inter-generational social control mechanisms, and a dramatic increase in social and personal disorganisation in Native American communities. While obviously Native Americans have borne the brunt of these consequences of the government's assimilation policies, the negative externalities that have impacted on the larger society have been quite substantial as well. This includes the costs of family breakdown, alcoholism, and other diseases, all of which cost a considerable amount of taxpayer money (Boyer 1997; Szasz 1974).

On a larger scale, the inability of groups to develop their social capital can be a major threat to the legitimacy of democratic political institutions. This is seen, for example, in the rallying cry of Islamic fundamentalist movements that see Western political institutions as especially hostile to the maintenance of bonding social capital through which individuals gain their sense of identity in the world (Barber 1995).

A formal institutional solution to the problem of building bonding and bridging social capital: the Tribal College Program

Many Native American tribes are extreme examples of ethnic groups that have had a difficult time reconciling bonding and bridging social capital. The Tribal College Program that is funded in part by the United States Department of Agriculture illustrates both the promise and the challenges of formal institutional solutions to generating social capital in groups where historically it has been limited and ineffective. The particular challenge for the Tribal College and University Program has been to find an institutional solution to the historic

zero-sum relationship between retention of Native American ethnicity and assimilation into the mainstream, European-centred, American society. This zero-sum relationship has generated serious negative externalities for the larger society as well as for Native Americans themselves and prevented the development of positive externalities, i.e., human capital development that could occur if Native American social capital could be used as a facilitator, rather than as an obstacle, to the education of youth on the reservations.

Federal support for the Tribal Colleges, which was initiated by an Act of Congress in 1991 (the Tribal Colleges are known as the "1991 Land Grant Colleges"), created a new formal institutional mechanism that linked the bonding social capital associated with Native American identity with the need for students from the reservation to develop bridging social capital to the larger society and the global economy. In one respect, the Tribal College Act of 1991 was a continuation of the historic link between the Federal Government and the Land-Grant Colleges and Universities. This formal organisational structure, initiated in 1861 with the land grant state universities system, and amended in 1890 to include a number of historically black colleges and universities, was amended in 1991 to give Tribal Colleges and Universities access to USDA and other Federal Governmental Funding to support Extension and research activities (O'Brien and Phillips 2004; O'Brien *et al.* 2005).

In another sense, however, the incorporation of the Tribal Colleges and Universities into the Land Grant system is a major formal institutional and organisational shift in the way American society views social capital development. The key element in this shift is the recognition that the specific relationship between bonding and bridging social capital among Native Americans called for a unique institutional environment and a corresponding organisational structure that would permit young people from the reservation to feel secure about their identity while at the same time building bridges to the larger society and global economy. Thus Tribal Colleges contain a variety of symbols, artefacts, and activities (e.g., powwows and other traditional Native American ceremonies) that reinforce bonding social capital, while, at the same time, offering accredited college courses that in most cases result in a two-year associate's degree that can become either a basis for employment or a

transfer of credits to a four-year university course (Boyer 1997).

This is not to say that the Tribal College Program has been a complete success in balancing the competing demands for enhancing bonding and bridging social capital. A comparative study, for example, found considerable variation in the ability of individual boards of trustees to reach an effective accommodation where the college would be perceived as a legitimate representative of the Native American community's institutional legacy (i.e., its bonding capital) while building bridges to outside resource-bases that would enhance the opportunities for its students to compete in the global economy. The most important finding of this study is that incremental adjustments in formal institutional and organisational mechanisms are difficult to develop and maintain but they can be solutions to the competing demands of bonding and bridging social capital (O'Brien *et al.* 2005).

Social capital, liberal-democracy, and globalisation

The over-riding theme of this paper has been that social capital cannot be conceptualised either apart from or simply antecedent to formal institutional arrangements. Even de Tocqueville ([1835] 1986), who is often cited as a prescient observer of the role of social capital – i.e., voluntary associations and "habits of the heart" – in building and maintaining liberal-democracy, devotes a considerable amount of space in the first volume of *Democracy in America* to governmental institutions.

Varshney's (2003) comparative study of Hindu–Moslem conflict in different Indian cities is also relevant to our discussion insofar as his major finding is that there are a considerable number of alternatives *within the same ethnic/religious community* with respect to the way in which bonding social capital is related to bridging social capital. He found that Moslems and Hindus had similar levels of identification with their respective communities in localities that differed widely in terms of inter-communal violence. The variable that was most important in differentiating between the high and low inter-communal conflict areas was not the intensity of bonding social capital but rather the extent to which members of each community interacted with one another in various types of civic associations. In short, Varshney's findings strongly

suggest that the strength of bonding social capital is not an inherent obstacle to developing bridging social capital, even in environments that have experienced rancorous inter-group conflicts.

Most important, the issues that have been addressed in this paper must be seen in light of the larger political context within which they ultimately will or will not be resolved. Specifically, the question is whether or not certain types of social capital can be maintained within the framework of a liberal-democratic society? A popular answer to this question is Thomas Friedman's (2000) argument that the pressure of globalisation will force nations to choose between retaining rigid traditional bonding social capital and remaining economically "backward" versus learning to become more flexible, i.e. develop more "weak ties", in connecting to the outside world.

This paper has presented an alternative view, suggesting that the problem of connecting bonding and bridging social capital lies as much in identifying formal institutional solutions as it does in trying to change traditional cultures. The argument that formal institutions in a liberal democracy can be adapted and changed, usually incrementally but nonetheless substantially, was made quite convincingly some years ago by Joseph Schumpeter (1950) in his analysis of the adjustment of western liberal democracies to economic calamities during the twentieth century. He points out, for example, that elites in liberal democracies tend to be "non-heroic" and make substantial structural changes in formal institutional arrangements when the costs of not doing so become too high. Major institutional adjustments such as the introduction of social welfare measures and the right to collective bargaining for mass production workers in the time of the Great Depression in the 1930s illustrate Schumpeter's point and provide us with some hope with respect to solutions to the problem of simultaneously building bonding and bridging social capital.

Conclusion: refocusing the discussion of social capital

In recent years there has been increasing recognition of the importance of social capital in the welfare of families, communities, nations, and the world as a whole. Social capital that builds trust and cooperative networks is associated with stable

civic culture, viable democratic institutions, and vibrant economies (Dasgupta 2000). The problem, however, has been to find concrete ways to build social capital where it is either absent or ineffective in producing these results. The thrust of the argument in the preceding pages has been that the root of our difficulty lies in the way we define the problem in the first place. Rather than seeing social capital solely as something that must be solved through informal social institutional adjustments – the traditional focus of sociologists – we must turn our attention to the ways in which formal institutional arrangements – the traditional focus of economists – either encourage or discourage the development of social capital. This does not mean, of course, that we abandon the insights of sociologists and others who have documented the role of informal institutions in the development of social capital. But it does mean broadening our approach so that we also can identify, and hopefully alter, formal institutional arrangements that affect the development and maintenance of social capital.

The first step in this regard is to recognise the costs – i.e., in economic parlance, "negative externalities" – that could be substantially reduced and the benefits that could be achieved if new formal institutional arrangements were able to enhance either existing or potential social capital. The focus, therefore, should be to find ways that will at once solve "community attachment" needs, which when unmet can lead to mass society and its associated social disorganisation and destruction of civic culture (Arendt 1979; Kornhauser 1959), while at the same time, facilitating the greater participation of group members in the global economy (Coleman 1988). A calculation of these costs and benefits can become a justification for public policy decision-makers to invest funds in programmes that will enhance the development of social capital in disadvantaged groups. Examples such as the Tribal College experiment referred to earlier, suggest that even modest investment in new institutional and organisational arrangements can have substantial payoffs.

A second, and much more complex issue, is to evaluate the manner in which extant institutional arrangements provide support for certain types of social capital while providing barriers to the incorporation of other types of social capital into the public sphere. In some places traditional social capital, based on tribal or religious communal identification, may be supported by current

institutional arrangements – e.g., allocated group membership in a parliament – whereas in other places, primarily in Western countries, institutional arrangements may provide a disadvantage to traditional forms of social capital – i.e., strong bonding ties – while enhancing the opportunities for groups in which members have a larger proportion of weak ties. The critical point is to recognise that a variety of forms of social capital can work equally well in providing both individual attach-

ment needs as well as integration into the global economy. The challenge, especially in a multicultural environment, is to confront the issue of “fairness” insofar as a given institutional arrangement will place some groups with certain types of social capital at a competitive advantage over others in the civic sphere. This suggests therefore that incremental adjustments, rather than a one size fits all approach to developing social capital, will be most effective.

Notes

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1. Bourdieu's work on social capital focuses much more than does Coleman's on its symbolic-phenomenological aspects in relation to objective conditions, especially structures of inequality (Bourdieu 1990, pp.108–110).

2. The coercive strategy is found, for example, in the case of the closed shop in mass production union organisations, while the selective incentives strategy is found in professional associations that provide payoffs for individuals (e.g., access to professional journals and meetings) to contribute to the costs of collective efforts, such as lobbying (Olson 1971, pp.66–97,111–131).

3. An important caveat here, of course, is the negative aspect of the Japanese system that bears some responsibility for the “stagflation” of the Japanese economy in recent years. Nonetheless, the fact remains that strong bonding type social capital can become the basis for very complex integrated networks that cover huge social and geographic distances. The widespread effectiveness of social networks of Islamic fundamentalist groups, reflected in the difficulty experienced by Western police and military authorities to completely penetrate them, illustrates that strong tie relationships can provide very resilient bridging ties (Barber 1995).

4. The role of formal institutional support for the creation of social capital historically has been a central goal of progressive Democratic administrations in the United States since the New Deal. This includes, for example, the Wagner Act that created the National Labor Relations Board and the War

on Poverty Programs of the Johnson Administration (see, e.g., Galbraith 1956; O'Brien 1975, pp.120–121).

5. These effects are shown clearly in a panel survey that documents changes in the social capital development of the same households over time. In 1995, for example, increases in the number of outside helpers (i.e., non-redundant network ties) produced an increase in household agricultural sales (the main source of income) up to three persons. However, in the 2003 survey, a mere eight years later, the increase in the number of persons in a helping network that would produce higher agricultural sales increased to nine. This change is an indication that as the formal institutional environment became more secure, households became more willing to trust others, thereby bringing them into their networks and increasing the overall amount of social capital in the village (O'Brien and Patsiorkovsky 2006, pp.82–83).

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