



# Social Capital:

## Reviewing the Concept and its Policy Implications

Commission  
Research Paper

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# Foreword

The literature on social capital has expanded rapidly in recent years. Although the concept remains somewhat abstract and unsettled, a variety of studies suggest that its effects can be pervasive and, potentially, important for public policy.

Feedback from the Commission's research consultations with government and non-government bodies has identified social capital as an important topic for formal investigation.

The Commission considers social effects along with economic and environmental effects in many of its studies. Matters specifically related to social capital have already arisen in several Commission reports, including inquiries into gambling, competition policy and the job network. Social capital considerations may also have wider relevance for the Commission's work, to the extent that it affects the environment in which policy reforms are implemented.

To help inform public discussion on these matters, this initial paper reviews social capital theories and concepts, and related empirical work, and discusses some of the possible ramifications for public policy.

The Commission is grateful to those who assisted it in preparing this study and welcomes further feedback on it.

Gary Banks  
Chairman  
July 2003

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# Abbreviations

ABS	Australian Bureau of Statistics
AIFS	Australian Institute of Family Studies
DNR	Department of Natural Resources
GDP	gross domestic product
MP	Member of Parliament
NCCR	National Commission for Civic Renewal
OECD	Organisation for Economic Cooperation and Development
ORR	Office of Regulation Review
PC	Productivity Commission
UK	United Kingdom
UKONS	United Kingdom Office of National Statistics
UKPIU	United Kingdom Performance and Innovation Unit
US	United States (of America)

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# OVERVIEW

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### **Key points**

- Social capital is an evolving concept. It relates to the social norms, networks and trust that facilitate cooperation within or between groups.
- Social capital can generate benefits to society by reducing transaction costs, promoting cooperative behaviour, diffusing knowledge and innovations, and through enhancements to personal well-being and associated spill-overs.
- Some aspects of social capital can have adverse effects, such as when strong internal group cohesion is associated with intolerance of others.
- Governments already undertake many functions that implicitly aim to support or enhance social capital. However, some government programs and regulations risk inadvertently eroding social capital.
- Whereas devising policies to create social capital generally is problematic, governments should at least consider the scope for modifying policies that are found to damage social capital, and ways of harnessing existing social capital to deliver programs more effectively.
- At present, there is limited understanding of social capital and how different policies interact with it, and measurement is difficult. Further research, coupled with small-scale policy experimentation, may be warranted to provide better knowledge and tools for incorporating social capital considerations in policy analysis where appropriate.

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# Overview

The social capital of a society includes the institutions, the relationships, the attitudes and values that govern interactions among people and contribute to economic and social development. Social capital, however, is not simply the sum of institutions which underpin society, it is also the glue that holds them together. It includes the shared values and rules for social conduct expressed in personal relationships, trust, and a common sense of ‘civic’ responsibility, that makes society more than just a collection of individuals. (World Bank 1998)

There is growing interest in the concept of ‘social capital’ and its ramifications for community well-being. Social capital has been ascribed many benefits, including enhanced health, better educational outcomes, improved child welfare, lower crime rates, reduced tax evasion, and improved governmental responsiveness and efficiency. Social capital has also been linked to productivity, income and other indicators of economic performance. International agencies such as the World Bank and the OECD now view social capital as an important emerging area of inquiry.

The social capital debate raises an array of questions for public policy-makers.

- Many existing government policies — such as those in the areas of education, family support, community services, sport and the arts, communications and essential services — implicitly aim to build or support social capital. Do they work and could they be improved? Should other policies be implemented to enhance social capital?
- Conversely, some government policies may inadvertently damage or hinder social capital. For example, public liability laws and regulations affecting community groups can make it harder for such groups to form and prosper, narrowing one avenue for the creation and maintenance of social capital. Some major policies — such as welfare provision, health care and industrial relations — can either reinforce or undermine social capital, depending on their design. Where policies have adverse side-effects on social capital, can or should they be redesigned?
- The presence of significant social capital may broaden the policy options open to governments. For example, where neighbours interact frequently and volunteers provide services such as ‘meals on wheels’, home based care for the elderly can be a more desirable and practical option than nursing home care. Can governments recalibrate their policies to better utilise existing ‘stocks’ of social capital?

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Social capital issues have arisen in several recent Productivity Commission studies. In its *Gambling* inquiry, for example, the Commission explored aspects of the effects of the recent proliferation of poker machines on social norms, trust, volunteerism and social interaction. It also considered community cohesion issues during its study on *Foot & Mouth Disease Outbreaks*. However, a lack of firm evidence on social capital has hampered investigations in such areas. There is a need for a better understanding of social capital and for better tools to gauge its effects.

Against this background, in this paper the Commission explores the social capital literature and its ramifications for public policy.

## Understanding social capital

Social capital is a contentious subject. Views differ about what constitutes social capital, how it operates, to whom and what the concept applies, and how to delineate between its sources, manifestations and effects. Nor is there agreement on whether social capital is always beneficial, or even on whether the matters referred to under the social capital label can sensibly be thought of as forms of ‘capital’.

What is broadly agreed is that social norms and/or social networks are key elements of social capital, and that trust is also part of it or, at least, a close proxy for it (box 1). Social capital is widely seen as a resource that facilitates cooperation within or between groups of people. It can arise in relationships in many areas of life, including those involving friends and families, school communities, ethnic, religious and community groups, occupational groupings, firms, governments and other institutions.

### Box 1      **Norms, networks and trust**

*Social norms* are ‘informal rules’ that condition behaviour in various circumstances. Specific social norms include surrendering seats for the elderly on public transport and not littering, while generalised norms may include tolerance, behaving honestly and helping those in need. A key overarching norm is that of ‘reciprocity’ — ‘do unto others as you would have them do unto you’.

A *social network* is an interconnected group of people who usually have an attribute in common. For example, they may like a particular sport or may share the same occupation or religion. At a more micro level, families and groups of friends will exhibit network characteristics. Different groups often have their own set of social norms and levels of mutual obligation between group members.

*Trust* is simply the level of confidence that people have that others will act as they say or are expected to act, or that what they say is reliable. *Social trust* (or ‘generalised trust’) refers to the general level of trust in a society — for example, how much one can trust strangers and previously unencountered institutions.

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Social capital is pervasive and can generate benefits in a range of subtle as well as more visible ways. Trust, for example, is the bedrock of most personal relationships, which in turn are a key determinant of human wellbeing; trust can also give people the confidence to lend a small sum of money to a colleague or a friend-in-need, or to allow neighbours to borrow tools and appliances; and living in a trustworthy community reduces the need for expenditures on personal security and policing, and gives parents more confidence to allow children to meet and play together outside the home or to travel unaccompanied on public transport. In the workplace, trust can improve information flows between staff, reduce the need for employers to monitor their employees and facilitate the introduction of more flexible work arrangements. In relation to services such as procuring medical treatment or car servicing, trust in a doctor/mechanic (and trustworthy behaviour by the doctor/mechanic) may prevent or lessen overservicing. And even for major commercial agreements, high levels of trust between the parties can lessen the need for detailed contracts to cover all possible interpretations and contingencies, and for monitoring of the other party to ensure their compliance.

More generally, research suggests that social capital — adherence to social norms, well-developed networks and associated levels of trust — can generate benefits in several ways:

- by reducing the costs of conducting day-to-day affairs and of doing business;
- by facilitating the spread of knowledge and innovation;
- by promoting cooperative and/or socially-minded behaviour in situations where narrow self-interest alone does not generate good outcomes for society;
- through individual benefits — people with good access to social capital tend to be more ‘hired, housed, healthy and happy’ than those without; and
- through associated social spill-overs, such as lower health and welfare expenditures, and higher tax receipts.

Conversely, a lack of social capital may encumber daily life, limit social and economic opportunities, and cause markets to work less efficiently. Low social capital in depressed communities can reinforce existing inequalities.

However, in some cases, aspects of social capital may have adverse effects. For example, strong group bonds can reduce tolerance of outsiders and create an undue focus on the group’s needs to the detriment of the broader society. Other problems are that some social norms can stifle individual expression and initiative, and that certain groups’ norms and sanctions may not be seen as desirable or humane.

Some examples of social capital in action are provided in box 2.

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## Box 2 **Social capital in action: some wide-ranging examples**

### *Market functioning*

- In the labour market, Australian research shows that people often locate jobs through informal mechanisms such as on the recommendation of family and friends, or through professional contacts, rather than (or in addition to) formal means such as responding to job advertisements (Stone, Gray and Hughes 2003).
- Transactions in wholesale diamond markets centred in New York are facilitated by high levels of trust and close social ties between merchants. Thus, in the process of negotiating a sale, one merchant will often hand over a bag of stones (which may be worth hundreds of thousands of dollars) to another merchant for inspection, without the need for formal insurance against the recipient substituting inferior stones or replicas (Coleman 1988).

### *Governmental performance*

- New and potentially powerful regional governments were established throughout Italy in the 1970s. Governments in the non civic-minded South have been found to be inefficient, lethargic and corrupt. By contrast, a number of those in the North, where levels of civic and social engagement beyond the immediate family are higher, have been adjudged successful in managing the public's business efficiently and satisfying their constituents (Putnam 1993).
- In Adelaide in the early 1990s, food inspectors at one council sought to promote compliance with food regulations by building links with local business associations and capitalising on the desire of most business people to 'do the right thing' (ORR 1995).

### *Social support*

- Maternal and child health agencies in Victoria provide parenting education for first-time parents in group meetings run over several weeks. These provide an opportunity for new parents to meet each other and create social networks, which can provide ongoing social contact and support for parents and children (Scott 2000).
- Following the recent bushfires in Canberra, the city's latent social capital was mobilised with many people voluntarily offering emergency shelter in their homes for fire victims and donating food, clothing and other items.

### *Adverse effects*

- Among certain 'crack dealing' communities in the Bronx, individuals who wish to better themselves by joining mainstream society are often singled out and attacked by other members of the group in order to prevent them from doing so (Portes 1998).
- Many civil or military conflicts are fuelled when strong intra-group bonding, based on ethnic, religious or national identity, results in and/or plays off suspicion and distrust of other groups. Recent conflicts in central Africa are but one example.

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## **Measuring social capital and its effects**

Numerous studies have attempted to measure social capital and to quantify its effects. Among other things, studies have found that ‘trust’ is high in continental Europe and particularly in Scandinavia, middling in some English-speaking countries (including Australia) and low in many developing countries. By some accounts, social capital has declined in some English-speaking countries over recent decades. Many studies of the effects of social capital have found that their social capital indicators are positively related to a range of beneficial social and economic outcomes.

However, because social capital as a concept is relatively new, multifaceted and imprecise, measuring social capital and its effects is extremely difficult. Many of the indicators that researchers have used to gauge social capital are open to criticism. A further empirical complexity is that social capital could be either a cause or a consequence (or both) of high levels of social and economic wellbeing.

The upshot is that many of the studies to date suffer from limitations that mean that their findings should be treated as ‘suggestive’ only.

## **Incorporating social capital matters into public policy**

Social capital has several characteristics that may cause it to be underprovided, or maldistributed, if left to private efforts alone.

Governments in developed nations already undertake many functions that may support or enhance forms of social capital. The provision of basic systems of property rights and civic order are normally preconditions for the emergence of social trust. As well, often existing governmental programs have as one of their underlying goals the development of forms of social capital, even if their objectives are not articulated in such language.

Several researchers and commentators have identified additional government policies that they believe could build or support social capital. Some address the broad determinants of the level of social capital in a society. Others seek to influence social capital and its sources and outcomes more directly, through active government policies to create new social capital, or through changes to the way governments operate to stimulate latent social capital.

On the other hand, some researchers emphasise the potential for government intervention across a range of fields to ‘crowd out’ or inadvertently damage civil society and to reduce personal and community self-reliance, to the detriment of social capital.

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At present, it can be difficult for policy analysts to know whether a particular policy will provide beneficial increases in social capital. This reflects the conceptual ambiguities and measurement difficulties that surround the concept, and the fact that, in some instances, social capital can have perverse effects. Even where there is reasonable certainty about what constitutes a beneficial increase in social capital, multiple and mutually reinforcing policies may be required to bring it about — complications which could test the competence and coordination of government. The need for localised solutions in some cases can also complicate policy analysis.

These risks and uncertainties suggest that further research may be warranted to deepen understanding of the sources of social capital and how they operate, to better conceptualise social capital itself, and to improve on current measures and measurement methodologies. In the short term, there may be merit in small-scale policy experimentation to gather experience and data on different policies aimed at supporting and enhancing social capital.

Although devising policies to create social capital generally is problematic, there could be benefits in integrating social capital considerations into mainstream policy analysis. This would help ensure that government policies, programs and regulations do not unnecessarily or unintentionally erode social capital, and that their beneficial side-effects on social capital are taken into account. It could also highlight opportunities to stimulate latent social capital through policy design, and to harness existing social capital where appropriate.

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# CHAPTERS

**Introduction**

**The conceptual literature on social capital**

**The empirical evidence on social capital**

**Social capital and policy analysis**

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# 1 Introduction

The social capital of a society includes the institutions, the relationships, the attitudes and values that govern interactions among people and contribute to economic and social development. Social capital, however, is not simply the sum of institutions which underpin society, it is also the glue that holds them together. It includes the shared values and rules for social conduct expressed in personal relationships, trust, and a common sense of ‘civic’ responsibility, that makes society more than just a collection of individuals. (World Bank 1998, 5)

## 1.1 The interface between social capital and public policy

There is growing interest in the ‘social capital’ concept and its ramifications for community well-being and public policy. The concept’s rise to public prominence followed publication in 1993 of a study that found that higher social capital can make democratic institutions more effective (Putnam 1993). An earlier study had theorised that social capital may be important for developing individual human capital (Coleman 1988), and later studies have sought to establish links between social capital and other social and economic matters.

Although interpretations of the concept vary and measuring it is difficult, there is mounting evidence that social capital can enhance several facets of personal and community wellbeing. After reviewing an array of studies from numerous countries, the OECD (2001) concluded that, although aspects of social capital can sometimes be detrimental, social capital is likely to have a range of social and economic benefits. The World Bank (2002) has reported ‘increasing evidence’ that social capital is critical for poverty alleviation and sustainable human and economic development.

Some commentators thus consider that social capital has important implications for public policy. The Saguaro Group — a US think tank of academics, policymakers, and business and community leaders convened by Robert Putnam — has argued:

It is becoming increasingly clear that social capital has an enormous array of practical benefits to individuals and to communities. What is more, social capital has what economists call ‘positive externalities’. That is, networks of trust and reciprocity not only benefit those within them, but also those outside them. Consequently, when social capital is depleted, people suffer in clear and measurable ways, and there is a ripple effect beyond a scattering of lonely individuals. Shoring up our stocks of social capital, therefore, represents one of the most promising approaches for remedying all sorts of social ills. (Saguaro Group 2000, 4)

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Social capital considerations can enter policy analysis in three ways. Each raises questions about the merits of existing government policies and their design, as well as issues of whether additional policies are warranted and the form they might take.

First, many existing governmental policies and programs have as one of their underlying goals the development of forms of social capital, even if their objectives are not always articulated in such language. Such policies arise in areas such as education, welfare provision, family and community services, sport and the arts, communications and the provision of essential services.

*Are these policies effective at building social capital, or do some of the policies in fact ‘crowd out’ community-based action and reduce social capital? Could the individual policies, or their mix, be modified to provide greater pay-offs in terms of social capital formation? Are additional policies warranted to enhance social capital?*

Second, some government policies and programs, though not specifically focussed on social capital, can still affect it. For example, public liability laws are intended to generate incentives for businesses and organisations to operate safely and to provide a mechanism for compensating people who suffer harm. Yet as shown by recent events in Australia, these laws can also affect the viability of community events and organisations and, thus, the opportunities to enhance local social capital. Many regulations and paperwork compliance burdens may have similar unintended adverse impacts on social capital.

*Is it possible to reform policies that have adverse side effects on social capital? More generally, is it possible to redesign other government policies to maximise their positive impacts on social capital?*

Third, the presence of significant social capital may broaden the range of policy options open to the government. It may be more effective to enhance and harness social capital in some cases than to rely on government-funded social services. For example, where volunteers provide services such as ‘meals on wheels’, it is possible to increase the number of elderly remaining in their own homes rather than being moved to nursing home care. Similarly, enhancing social capital in disadvantaged communities may reduce the need for subsequent investments in crime reduction and corrective services, while simultaneously improving the prospects and well-being of the community.

*Could some government services be provided more cost-effectively by harnessing existing social capital in the community? Should actions that draw on or help create social capital be considered as part of policy responses to particular problems?*

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## 1.2 The Commission's interest in social capital

The social capital concept formally enters the Commission's ambit through the policy guidelines contained in the *Productivity Commission Act 1998*. The guidelines require that, in providing policy advice or undertaking its other functions, the Commission is to have regard to a number of matters. One of these is the need to improve productivity and economic performance to enhance Australians' living standards. Some studies have linked social capital to both productivity and certain measures of economic performance. Other guidelines include the need to reduce unnecessary regulation, to encourage efficient and internationally competitive industries, to facilitate adjustment to structural changes and avoid social and economic hardships arising from those changes, and to promote regional development. All these matters can invoke the consideration of social capital issues. Such issues are also relevant to the Commission's role — assigned by the Council of Australian Governments — in which it assists in developing and monitoring indicators of government services and, more recently, indigenous disadvantage.

Some specific social capital issues have arisen in the context of several recent Commission studies.

- Its 1999 inquiry into the *Impact of Competition Policy Reforms on Rural and Regional Australia* (PC 1999a) arose in response to concerns about the viability and social fabric of rural communities.
- In its inquiry of the same year into *Australia's Gambling Industries* (PC 1999b), the Commission considered some effects of the proliferation of a gambling culture on social norms, trust, volunteerism and social interaction.
- In its study on the *Impact of a Foot and Mouth Disease Outbreak on Australia* (PC 2002a), the Commission examined matters relating to community cohesion in times of crisis, and to the design of response measures to draw on and promote cooperation and to minimise division.
- The issues of how unemployment can diminish an individual's access to social capital, and conversely the importance of social capital for connecting job seekers and employers, arose during the Commission's *Independent Review of the Job Network* (PC 2002b).
- The Commission's *Annual Report 2001-02* (PC 2002c), which examined the appropriate reach of markets, noted that the strength of social capital within a community influences the extent to which governments need to provide regulatory and institutional support for the functioning of markets.
- In its recent study on the *Industries, Land Use and Water Quality in the Great Barrier Reef Catchment* (PC 2003), the Commission recognised that the social capital of farming communities can affect their adoption of new farming practices.

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More generally, some reforms that the Commission recommends can lead to difficult structural adjustment. Communities with high levels of social capital may be more resilient to external shocks and more able to deal with change. Measures that harness and enhance existing social capital may be options that governments can pursue to facilitate adjustment to change.

However, the Commission's investigations to date have been hampered by a lack of evidence on the impact of social capital, and robust tools for gauging it. For example, in its study on foot and mouth disease outbreaks, the literature and experts consulted by the Commission helped identify different ways in which an outbreak could affect community cohesion, but were unable to provide a means of gauging those effects. Similarly, in its report on gambling, the Commission was able to trace many of the relevant effects, but in some cases was unable to obtain sufficient evidence to quantify those effects, or even to gain much of a qualitative feel for their magnitude. Reflecting the nature of the questions asked of the Commission, these limitations did not affect the reports' main findings. However, they did point to the desirability of having better tools to conceptualise and measure social capital and its impacts.

### **1.3 About this paper**

In view of the increasing recognition of the potential effects of social capital, and to further integrate social capital considerations into its work, in 2002 the Commission commenced a project to:

- identify developments in the social capital literature that may be relevant to the Commission's work;
- assess the merits of the social capital concept for economic and public policy analysis; and
- identify areas that may warrant further study by the Commission or others.

This paper is an initial output of the project. In it, the Commission examines social capital theories and concepts, related empirical work and some ramifications for public policy. Each chapter concludes with a section that summarises its main points. An appendix surveys various policies that have been suggested to build or support social capital. However, the paper does not attempt to assess the merits of individual policies or proposals, or to assess the current state of social capital in Australia.

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## 2 The conceptual literature on social capital

Although antecedents to the social capital concept can be found at least as far back as the eighteenth century, the concept was discussed little prior to the 1990s (box 2.1).

The literature on social capital has burgeoned since then. Academics from several disciplines have now written on the subject. Their contributions cover an array of theoretical, empirical and policy-oriented matters. Increasingly, governmental bodies dealing with social and economic issues are also addressing the concept. For example, the Australian Institute of Family Studies is researching various aspects of social capital and family and community life, and the Australian Bureau of Statistics is currently investigating what data it might collect to measure social capital and its effects. At the international level, the World Bank and the OECD have commissioned extensive research into social capital and related issues.

Because of its recent emergence, broad ambit and multi-disciplinary nature, the conceptual literature on social capital is still evolving. Several authors have attempted to define social capital, but its meaning is not universally agreed. Views differ about what constitutes social capital; how it operates; to whom and what the concept applies; how to delineate between its sources, manifestations and effects; whether social capital is always beneficial; and even whether the matters referred to under the social capital label can sensibly be thought of as ‘capital’. The conceptual uncertainties also spill into the empirical literature (chapter 3).

The controversies in the academic literature do not mean that, in practical terms, social capital is unimportant for people’s well-being. Indeed, some of the matters included under the social capital rubric appear significant in this respect.

However, the unsettled nature of the literature does hamper attempts to explain the concept concisely and definitively, as well as making it difficult to employ the concept in the development of public policy (chapter 4).

In this chapter, the Commission attempts to build a picture of what is meant by the term social capital, and how it operates, by examining the following aspects:

- definitions and treatments;
- key features;
- sources and determinants; and
- positive and negative impacts.

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### Box 2.1 History of the 'social capital' concept in academic thought

The idea that social norms are needed to guide economic activity can be traced back to the political economy theorists of the Scottish enlightenment. As reported in Woolcock (1998), Edmund Burke contended that markets could not function at all without the prior existence of civilising norms and moral principles. David Hume, on the other hand, speculated that an appropriate 'moral sense' or 'sympathy' would emerge of its own accord. In between stood Adam Smith who considered that, while people's pursuit of self-interest is tempered by an innate moral sense, there would remain a need for accompanying regulation of the marketplace by church and state.

Issues relating to social capital have a similar genesis, though a more sustained history of discussion, in sociological circles. According to Woolcock (1998, 161):

The Durkheimian, Weberian and Marxist traditions in classic sociology were all heavily influenced by the economic debates and issues of [the late eighteenth and early nineteenth century], and much of what we now refer to as 'social capital' lay at the heart of these concerns. Similar debates surrounded sociology's controversial entry into American Universities ... in the 1890s, where the case for social forces as independent factors shaping urban development served to differentiate the sociologists from the economists.

The first use of the term social capital — with a meaning similar to the one now adopted — occurred in 1916, when Hanifan (cited in Woolcock 1998) referred to it as:

Those intangible assets [that] count most in the daily lives of people: good will, fellowship, sympathy and social intercourse among the individuals and families who make up a social unit.

The term in this context appears to have been used only rarely over the following sixty or so years. Jacobs (1961) used it to emphasise the importance of people networks in cities, and Loury (1977, 1981) drew on it to help explain the different economic opportunities that minority and non-minority youths faced due to social connections.

While Bourdieu (1985) attempted the first systematic study of social capital, the contemporary interest in the concept was sparked by Coleman's (1988) study of the relationship between social capital, human capital and school attendance in the United States, and later by Putnam's (1993) study of social capital and democratic institutions in Italy. Winter (2000b) reports that, in contrast to the sparse references of earlier periods, some 109 journal articles between 1991 and 1995 listed social capital as an identifier, and a further 1003 articles did so from 1996 to March 1999. Various government agencies are now conducting research into social capital, the term has become widely used in public debate, and several governments have launched policies explicitly premised on a need to foster social capital.

Reflecting the widespread and sometimes polemical use of the term, some academics have cautioned against the 'temptation to use social capital as a peg on which to hang all of those informal engagements we like, care for and approve of' (Dasgupta 1999, 326). Others, while aware of its current limitations, see potential for the concept to bridge interdisciplinary gaps and enhance public policy. As Temple (2001, 22) points out:

[Social capital] provides a useful umbrella term for those aspects of societies which, though difficult to measure and incorporate into formal models, are widely thought to be an important determinant of long-run economic success. For some economists (not all), the intuition that 'society matters' is strong enough to outweigh the current absence of much in the way of a theoretical underpinning.

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## 2.1 Definitions and treatments

The literature contains a variety of definitions of social capital (box 2.2). Although the definitions exhibit some broad consistencies, the terminology used varies, there are differences in the way social capital is conceptualised, and ‘at an operational level the interpretations of what social capital is or is not are diverse’ (Narayan and Cassidy 2001).

The differences in the definitions and treatments partly reflect the different theoretical traditions from which the concept has emerged. As the OECD (2001) points out, it is possible to distinguish at least four broad approaches to the concept:

- one strand of the *economic* literature focuses on individuals’ incentives to interact with others and, out of self-interest, to invest in social capital resources; while another explores the design and effects of formal and informal institutions;
- from a strand of the *political* science literature comes an emphasis on the role of institutions and political and social norms in shaping human behaviour;
- the *sociological* literature, from its analysis of the social determinants of human motivation, brings a focus on features of social organisation such as trust, reciprocity and networks of civic engagement; and
- a strand of the *anthropological* literature develops the notion that humans have natural instincts for association, providing a biological basis for social order.

Notwithstanding their differences, some themes run through the definitions and treatments of social capital with sufficient frequency to allow some firming up on its scope and meaning.

First, most authors agree that social networks and/or social norms are key elements of social capital.

Second, most authors see ‘trust’ as being either an additional element of social capital or a close proxy for the level of social capital present in a community.

Third, many authors view social capital as a *resource* that people can use to achieve certain of their objectives, albeit not one that any one individual can ‘own’ in a formal sense. As Portes (1998, 7) puts it:

Whereas economic capital is in people’s bank accounts and human capital is inside their heads, social capital inheres in the structure of their relationships. To possess social capital, a person must be related to others, and it is these others, not himself, who are the actual source of his or her advantage.

Fourth, social capital can arise at all levels of society. As Stone and Hughes (2002) point out, the literature identifies social capital within families and other networks

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### Box 2.2 Selected definitions of social capital

- ‘The aggregate of the actual or potential resources which are linked to the possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition.’ (Bourdieu 1985)
- ‘Social capital is defined by its function. It is not a single entity but a variety of entities with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors — whether persons or corporate actors — within the structure.’ (Coleman 1988)
- ‘... features of social organisation such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions.’ (Putnam 1993)
- ‘... the ability of actors to secure benefits by virtue of memberships in social networks and other social structures.’ (Portes 1998)
- ‘Social capital represents the degree of social cohesion which exists in communities. It refers to the processes between people which establish networks, norms and social trust, and facilitate co-ordination and co-operation for mutual benefit.’ (World Health Organisation 1998)
- ‘... the information, trust, and norms of reciprocity inhering in one’s social networks.’ (Woolcock 1998)
- ‘Social capital is an instantiated informal norm that promotes cooperation between two or more individuals.’ (Fukuyama 1999)
- ‘Social capital is networks together with shared norms, values and understandings that facilitate cooperation within or among groups.’ (OECD 2001)

of familiars, within community-level networks, and at the level of nation states. It is increasingly accepted that social capital may also arise in relationships with formal institutions. The OECD (2001, 45) has noted:

Social capital is built at the ‘level’ of families, communities, firms, and national and sub-national administrative units and other institutions. Typically, the idea of social capital is associated with relations in civil society. However, relationships of trust and networks also involve public organizations and institutions. Social capital is embedded in norms and institutions, which include public and legal entities. The focus of analysis may also extend to different groups within civil society such as gender, occupational, linguistic or ethnic groups.

Finally, it should be noted that, although the term has been given a broad range of meanings in public debate, none of the treatments in the more authoritative literature go so far as to equate social capital with concepts such as ‘social concerns’, ‘non-financial benefits’, ‘community facilities’ (such as parks, halls and libraries) or ‘government-owned infrastructure’ (such as schools, hospitals, roads and public utilities).

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## 2.2 Key features: norms, networks and trust

As noted above, social norms and networks are widely accepted as being core elements of social capital, with trust being seen either as an additional element of social capital or a close proxy for the level of social capital present in a community. This section explores these phenomena. A more comprehensive discussion of their effects is presented in sections 2.4 and 2.5.

### Norms

Social norms are shared understandings, informal rules and conventions that prescribe, proscribe or modulate certain behaviours in various circumstances. Generalised social norms can include honesty, law abidingness, the work ethic, respect for elders, tolerance and acceptance of diversity, and helping people in need. Social norms can also relate to specific situations such as paying bills on time, queuing at shop counters, returning other's lost possessions, surrendering seats for the elderly on public transport, and forms of greeting. Social norms are often unwritten, although they can also be expressed or reinforced through tribal or religious beliefs and dictums, nursery rhymes, social sayings, music and drama. Under some interpretations, social norms can also be embodied in laws and regulations themselves.

Social norms often facilitate more predictable or beneficial behaviour patterns from individuals in society. Hechter and Opp (2001) note: 'Without norms it is hard to imagine how interaction and exchange between strangers could take place.'

Underpinning many social norms is the concept of 'reciprocity', which is strongly reflected in the ethic of 'do unto others as you would have them do unto you'. Reciprocity may be specific or generalised: that is, whether the favourable act will be reciprocated, and when, by and to whom, may or may not be known before the person commits to doing that act.

While the direct exchange of 'favours' can be seen as a form of transaction that requires no more motivation than narrow self-interest, the supply of generalised reciprocity is increased by being made 'expected behaviour' required by a social norm. As Taylor (1982) puts it:

Each individual act in a system of reciprocity is usually characterised by a combination of what one might call short-term altruism and long-term self-interest. I help you now in the (possibly vague, uncertain, and uncalculating) expectation that you will help me out in the future. Reciprocity is made up of a series of acts each of which is short run altruistic (benefiting others at a cost to the altruist), but which together typically make every participant better off. (Taylor 1982, quoted in Putnam 2000, 134)

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Different societies have different social norms. Some of the norms prevalent in Western societies differ markedly from those in developing countries. And while some social norms operate at the broad societal level, different groups within a particular society can also have their own, often stronger, set of norms.

Compliance with social norms may be encouraged through internal psychological sanctions, such as guilt, or external sanctions such as shame and ostracism. In some groups or societies, norms are enforced through physical sanctions or threats. Informal social norms can act as complements to, or even partial substitutes for, laws and associated enforcement processes.

## **Networks**

A network is an interconnected group of people who usually have an attribute in common. For example, they may like a particular sport or may share the same occupation. At a more micro level, families and groups of friends will exhibit network characteristics.

An individual can belong to more than one network at once. As well as family, an individual may be a part of separate networks of relationships based on his or her neighbourhood, recreational preferences, vocation, gender, parental status, politics, religion, race and/or national grouping. Each of these groupings may come with different norms and levels of mutual obligation or expectation, and may generate different levels of ‘generalised trust’ towards others within or outside the grouping.

The literature draws a distinction between dense and sparse networks. Dense networks have overlapping or ‘multiplex’ ties between group members. This interconnectivity is lacking in sparse networks, where contacts are generally weaker and more distant.

Being part of a network provides individuals with benefits such as a greater pool of social support when needed, greater access to information (and lower search costs), and a wider range of opportunities.

Networks can also play an important role in the provision of other aspects of social capital. Social norms are more likely to be spread and observed in a more connected society, and members of a highly connected community may find it easier to trust one another. As Putnam (2000, 136) notes:

An effective norm of generalised reciprocity is bolstered by dense networks of social exchange. If two would-be collaborators are members of a tightly knit community, they are likely to encounter one another in the future — or to hear about one another through the grapevine. Thus they have reputations at stake that are almost surely worth more than the gains from momentary treachery. In that sense, honesty is encouraged by dense social networks.

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## Trust

Trust refers to the level of confidence that people have that others will act as they say or are expected to act, or that what they say is reliable. A person's level of trust in another depends largely on the person's perception of the other's trustworthiness, although people can also 'invest' trust in others. While trust can relate to individuals, it can also relate to groups and institutions within a society, including governments. It is also possible to conceive of 'the general level of trust' within a particular society.

As alluded to earlier, while many authors treat trust as an element of social capital, others see it as an important source or outcome of social capital but caution against treating trust as social capital itself. For example, Woolcock (2001, 71) argues that, to avoid tautological reasoning, any definition of social capital should focus on what it *is* rather than what it *does*. He then explains that:

This approach eliminates an entity such as 'trust', a vitally important entity in its own right but which for our present purposes can be regarded as an outcome (of repeated interactions, of credible legal institutions, of reputations). Just as 'test scores' are an indicator of human capital, and not human capital itself ... so too 'trust' is better understood not as social capital per se, but rather as a measure of it.

Similarly, Fukuyama (1995, 26) defines trust as 'the expectation that arises within a community of regular, honest and cooperative behaviour, *based on commonly shared norms*, on the part of other members of the community' (emphasis added). Under this construction, trust is an outcome of the operation of norms — which alone constitute social capital under Fukuyama's definition (see box 2.1). This delineation of trust from other elements of social capital is not clear-cut, however, as often authors speak about 'norms of trust'.

Whatever its precise relationship to social capital, trust and trustworthiness proffer many benefits. They are the bedrock of most personal relationships, facilitate various day-to-day interactions, and play an important role in commerce (see section 2.4).

That said, sometimes high levels of trust, or trust not justified by the trustworthiness of others, can be exploited. For example, although higher levels of social capital are generally associated with lower rates of crime, Halpern (2001) has found that, for a given level of income inequality and narrow self-interest in a country, its people are more likely to fall victim to crime if they also have high social trust (see section 3.2).

The literature draws a distinction between trusting based on personal experience and trust based on a general community norm. The former is embedded in personal relations and is formed over a period of interaction with the other person (or organisation). Generalised trust is a predisposition to rely on a stranger or organisation even in the absence of specific knowledge about their past actions.

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Levels of generalised trust are likely to vary both between different groups within a society, as well as between different societies. For example, people are more likely to trust a stranger who they learn is a doctor than a stranger who they learn is a drug dealer. Similarly, trust may be greater and more generalised in a country where honesty and orderly behaviour predominate. Some people may also be more likely to trust strangers who have religious, racial, vocational or other characteristics that are similar to their own.

While trust based on personal experience and ongoing relationships may be more robust than trust based on community norms, Putnam (2000) argues that generalised trust is more valuable as it extends the ‘radius of trust’ to a wider circle of people, allowing a much larger range of interactions with their attendant benefits.

## **2.3 Sources and determinants of social capital**

The literature identifies a range of potential sources of social capital, and factors that can influence the rate and extent of its formation (or destruction):

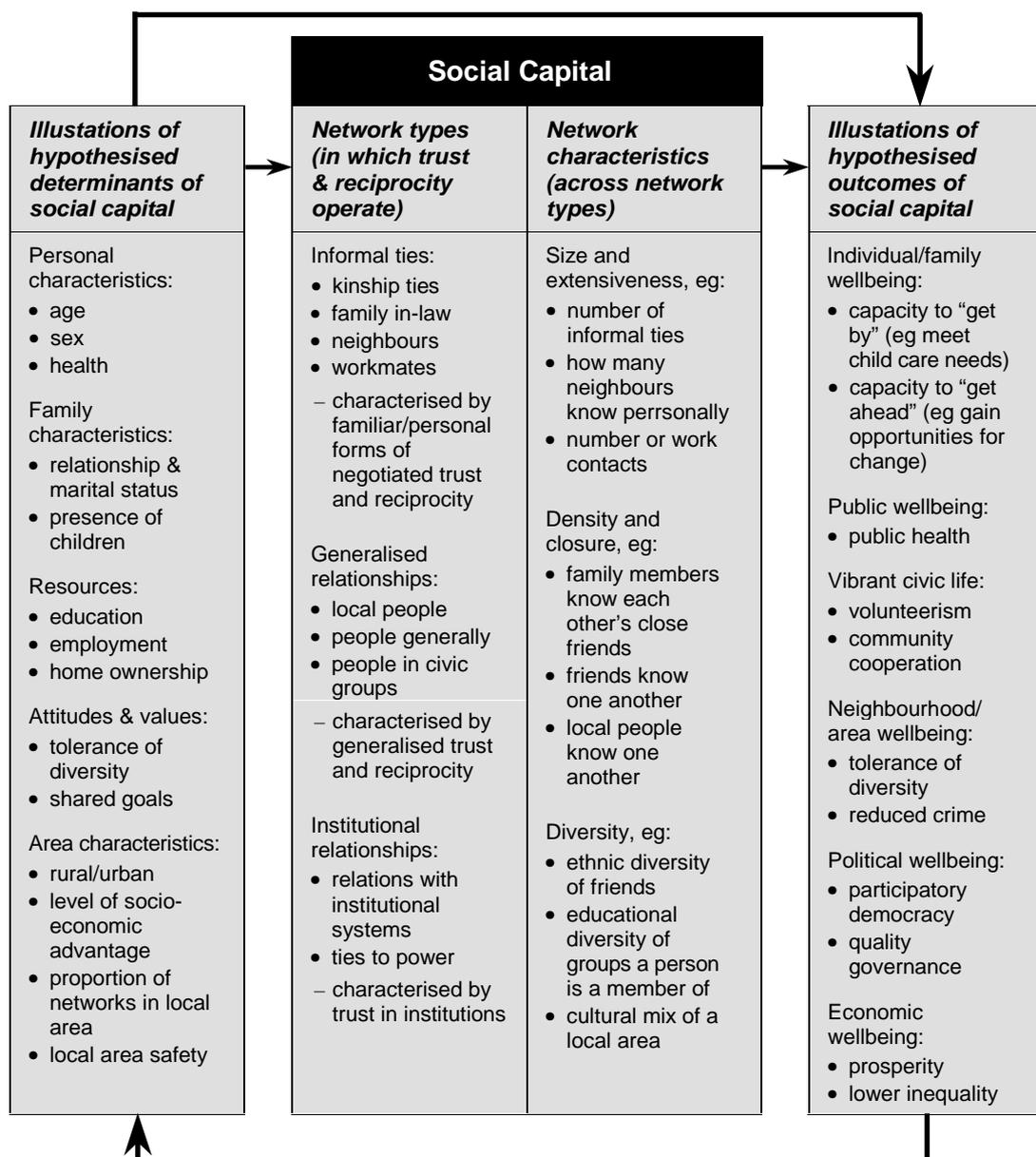
- The World Bank and the OECD identify eight sources or ‘dimensions’ as being relevant for the development of social capital. These are: the family, schools, local communities, firms, civil society, the public sector, gender and ethnicity. These international agencies discuss in some detail the theory and evidence on how social capital may be formed at each of these levels. Some of this material is also outlined as part of appendix A.
- According to the AIFS (see box 2.3), individuals’ access to social capital may vary with an array of factors including their age, gender and health; family circumstances; education, employment and home-ownership status; attitudes and values; and characteristics of the area in which they reside, such as its urbanisation and level of socioeconomic disadvantage.

However, gaining a precise picture of the sources and determinants of social capital and how they operate is difficult. The different conceptions of social capital lead to differences in conceptions of its sources and determinants. Further, as discussed in chapter 3, most empirical work to date has been hampered by the use of imperfect indicators of social capital and difficulties in establishing the extent and direction of causality between these indicators and other variables of interest.

One feature of social capital is that there may be complex feedback effects between its sources and effects, resulting in ‘virtuous circles’ of social capital creation. For example, at the individual level, education appears to be an important factor in individuals’ access to social capital. At the same time, good access to social capital may enhance individuals’ (or their children’s) educational prospects. Some authors also consider that the use of social capital need not deplete its level and may, in fact,

### Box 2.3 The AIFS conceptual framework

Starting from its definition of social capital as ‘networks of social relations which are characterised by norms of trust and reciprocity and which lead to outcomes of mutual benefit’, the Australian Institute of Family Studies (AIFS) has developed a conceptual framework of social capital that distinguishes between various ‘network characteristics’ — essentially norms of trust and reciprocity, and network size, density and diversity — for different networks in three social realms: the *informal*, the *generalised* and the *institutional* (see figure below and further discussion in section 3.4). The framework recognises that social capital can have a range of possible determinants and outcomes, with interaction effects between them.



Source: Stone and Hughes (2002).

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enhance the ability of others to do the same. Cox and Caldwell (2000) argue, for example, that placing trust in others may cause them to act in more trustworthy ways, and may make them more willing to trust back. Conversely though, societies that lack a critical mass of trust may become trapped in cycles of untrustworthy behaviour that begets distrust and further untrustworthy behaviour.

Some authors emphasise that some sources of social capital are long-standing and, thus, may be slow or difficult to change. For example, Putnam (1993) suggests that the difference in the amounts of social capital observed in northern and southern Italy today is partly a result of differences in political systems dating back hundreds of years (see chapter 3). Fukuyama (1999) argues that social capital is a result of factors including ‘religion, tradition [and] shared historical experience’. There is greater scope for the short-term development (or loss) of trust and networks at the individual level, yet these individual opportunities are still constrained by prevailing community norms, attitudes and propensities — factors which are generally difficult or slow to change.

This need not mean that social capital is unable to be generated more rapidly in particular contexts or with particular means. Indeed, the ABS (2002) cites an example — the Welink Queensland Rural Women’s Network information technology and communications network — in which new infrastructure combined with structured links with government departments was used to support the reportedly rapid development of social capital among rural and indigenous women.

Of particular relevance for policy makers, there is some disagreement about the role of government in social capital formation. One strand of the literature emphasises the potential for governments to ‘crowd out’ civil society and to weaken informal networks. Another strand argues that public governance based on commitment to public welfare, accountability and transparency provides a basis for trust and social inclusion, which can in turn strengthen social capital. Under this view, public governance has the capacity, in some circumstances, to complement rather than displace community-based networks and to reinforce trust.

At a practical level, the effect that government has on social capital creation, or loss, will depend on the details of program design and coordination as well as on the overall ‘footprint’ of government. Some forms of government action may be inimical to social capital formation, while others may reinforce it. Similarly, public leadership that is divisive can weaken some types of social capital, in contrast to that which is inclusive. One implication of the diffuse sources and determinants of social capital noted above is that government policies ‘to support or enhance social capital’ might involve action across an array of portfolio areas. By the same token, many existing policies potentially may impact on social capital, in some cases in an adverse way. The issue of how social capital considerations can be incorporated into public policy is explored in chapter 4.

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## 2.4 Positive impacts: how social capital may benefit individuals, the economy and society

There is a presumption in much of the literature that social capital — adherence to social norms, well-developed networks and associated levels of trust — generally has beneficial impacts. Indeed, as discussed in chapter 3, several studies have found positive associations between indicators of social capital and such outcomes as lower crime rates, improved health, educational attainment, governmental efficacy, individual income and, at the aggregate level, economic performance.

Mechanisms by which these outcomes might be achieved include:

- by reducing transaction costs;
- by facilitating the dissemination of knowledge and innovations;
- by promoting cooperative and/or socially-minded behaviour; and
- through individual benefits and associated social spin-offs.

### Reducing transaction costs

*Social norms* can work to reduce ‘transaction costs’ by generating expectations, informal rules of thumb and common understandings that allow people to conduct their personal interactions and business dealings efficiently.

Well-developed *networks* are also likely to reduce transaction costs, in two ways. First, people who are well connected socially are more likely to directly know someone who possesses the knowledge or skills they need, thus reducing their ‘search’ costs. Second, networks can reinforce compliance with group norms (and the lower transactions costs that accompany it), and levels of trust.

The high levels of *trust* associated with social capital are critical for many transactions:

- Informal day-to-day transactions such as borrowing a small sum of money from a friend, or a gardening implement or household appliance from a neighbour, would not be possible without trust.
- Within the workplace, where there is mutual trust between employer and employee, there may be less need for monitoring and supervision by the employer, and more scope for the employee to adopt flexible work practices (such as variable hours and working from home).
- Trust is particularly beneficial for commercial transactions where pertinent information is unevenly shared between the parties. Procuring medical treatment or car servicing are examples, where trust in a doctor/mechanic (and trustworthy behaviour by the doctor/mechanic) may prevent or lessen overservicing.

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- And even for major commercial agreements, high levels of trust between the parties can lessen the need for detailed contracts to cover all possible interpretations and contingencies, and for monitoring of the other party to ensure their compliance.

The manner in which diamond traders operate in some United States markets demonstrates how the various elements of social capital, in this case working together, can substantially reduce transactions costs. Coleman (1988, 16) reports:

Wholesale diamond markets exhibit a property that to an outsider is remarkable. In the process of negotiating a sale, a merchant will hand over to another merchant a bag of stones for the latter to examine in private at his leisure, with no formal insurance that the latter will not substitute one or more inferior stones or a paste replica. The merchandise may be worth thousands, or hundreds of thousands, of dollars. Such free exchange of stones for inspection is important to the functioning of this market. In its absence, the market would operate in a much more cumbersome, much less efficient fashion.

Inspection shows certain attributes of the social structure. A given merchant community is ordinarily very close both in frequency of interaction and in ethnic and family ties... These close ties, through family, community and religious affiliation, provide the insurance that is necessary to facilitate the transactions in the market. If any member of this community defected through substituting other stones or through stealing stones in his temporary possession, he would lose family, religious, and community ties.

Of course, for most major commercial agreements in large, complex societies, strong social capital and/or trust alone are unlikely to so dramatically reduce the need for formal contracts and monitoring of major business transactions. Yet as Solow (1999, 8) has observed, no contract can possibly specify every contingency that may arise between the parties, and ‘transaction costs will be lower, defensive behaviour will be diminished, and economic performance will be better if the parties can legitimately expect each other to be ‘reasonable’ or nonexploitative if one of those uncovered contingencies should pop up.’

## **Disseminating knowledge and innovations**

An increase in certain forms of social capital is likely to increase the ease and speed with which ideas, knowledge and information are disseminated throughout the community. At a general level, the more connected the community is, the more easily people will be able to pass information around and the more people this information is likely to reach. An oft-cited example is the dissemination of knowledge in Silicon Valley in the United States, where an apparently high level of social capital allows information to be passed around easily and informally.

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On the other hand, some elements or manifestations of social capital, associated with the dynamics of strong social groupings, can potentially reduce the inflow of information into a group and inhibit the uptake of innovations. As Adler and Kwon (2000, 16) point out:

strong solidarity with in-group members may overembed the actor in the relationship. This overembeddedness reduces the flow of new ideas into the group, resulting in parochialism and inertia.

Adler and Kwon cite as an example German industry, in which they claim that ‘firms are too loyal to established suppliers, and are thus slow to seek out and adopt more novel ideas.’

This highlights the different effects of ‘bridging’ and ‘bonding’ social capital. Bridging social capital involves links across groups with disparate characteristics. It may be more likely to promote innovation than ‘bonding’ social capital, which entails links between people with similar characteristics (box 2.4). At the academic level, for example, ‘bonding’ contacts and interaction between members of the Economics Society, or between members of the Sociological Society, has the potential to reinforce existing intellectual paradigms, whereas ‘bridging’ between economists and sociologists might result in greater cross-fertilisation of ideas and intellectual innovation within both disciplines.

### **Promoting cooperative and/or socially-minded behaviour**

Ever since Adam Smith (1776) famously observed that ‘It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own self-interest’, the role that individual self-interest can play in promoting the common good has been widely recognised.

However, economic theory also points to a range of situations in which the pursuit by individuals of their (narrow) self-interest is likely to lead to socially imperfect or even perverse outcomes. Key cases are where an individual’s actions impose ‘external’ costs on other people, and in particular in ‘prisoners’ dilemma’ situations in which cooperation is necessary to bring about socially ideal outcomes.

Many social norms have evolved to limit self-interested behaviour and to encourage cooperation in such circumstances. As Knack and Keefer (1997, 1254) note:

Cooperative norms act as constraints on narrow self-interest, leading individuals to contribute to the provision of public goods of various kinds. Internal (eg guilt) and external (eg shame and ostracism) sanctions associated with norms alter the costs and benefits of co-operating in prisoners’ dilemmas.

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### Box 2.4 **Bonding, bridging and linking**

The literature distinguishes between bonding, bridging and linking social capital:

- *Bonding* social capital refers to relations among relatively homogenous groups (such as an ethnic, religious or socioeconomic groups), and it strengthens the social ties within the particular group.
- *Bridging* capital refers to relations between heterogenous groups, and it strengthens ties across such groups. Examples of bridging social capital include the civil rights movement and ecumenical religious organisations.
- *Linking* social capital refers to relations between individuals and groups in different social strata in a hierarchy where power, social status and wealth are accessed by different groups.

In relation to bonding and bridging social capital, Putnam (2000, 22–23) argues that both types bring benefits, but in different ways:

Bonding social capital is good for undergirding specific reciprocity and mobilizing solidarity. Dense networks in ethnic enclaves, for example, provide crucial social and psychological support for less fortunate members of their community, while furnishing start-up financing, markets, and reliable labour for local entrepreneurs. Bridging networks by contrast, are better for linkage to external assets and for information diffusion. Economic sociologist Mark Granovetter has pointed out that when seeking jobs — or political allies — the 'weak' ties that link me to distant acquaintances who move in different circles from mine are actually more valuable than the 'strong' ties that link me to relatives and intimate friends whose sociological niche is very like my own... Bonding social capital constitutes a kind of sociological superglue, whereas bridging social capital provides a sociological WD-40.

However, Putnam (2000, 23) also recognises that bonding social capital, in particular, may create negative effects:

Bonding social capital, by creating strong in-group loyalty, may also create strong out-group antagonism ... for that reason we might expect negative external effects to be more common with this form of social capital.

A simple day-to-day example is the choice people face of whether to litter. The common good generally is best served if all people refrain from littering. But often it would not be in the individual's narrow self-interest to search for a bin, because their individual littering would have a negligible impact on the environment overall, whether others litter or not. The social norm that overrides narrow self-interest and discourages littering thus contributes to the public good of a clean environment.

The choices people face when considering voluntary community work, such as whether to make lunches at their children's school canteen, provide a multitude of similar day-to-day examples.

Within organisations, a workplace culture of openness and trust can promote cooperation and information sharing among staff and thereby advance corporate

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goals. Such a culture may override the narrow self-interest of each staff member, which might be to withhold information from colleagues, who are often potential competitors for promotion or other favour within that organisation.

In communities within countries where capital markets are weak, strong social capital can facilitate the pooling of finances, which can then be invested in projects such as schools, village enterprises or irrigation infrastructure.

At the international level, collective action by national governments is often necessary to address concerns such as arms control and global environmental degradation and the control of disease outbreaks. Trust between governments, and a country's concern to maintain a good 'international reputation', may add to the case for cooperating in such circumstances. Conversely, the absence of trust, and limited cross-national or cross-cultural 'bridging' social capital, can aggravate international suspicions and conflicts and thus generate greater (military and other) expenditures.

### **Individual benefits and associated social spill-overs**

Many phenomena related to social capital have valuable intrinsic and/or personal benefits. For example, people with a wide network of friends, acquaintances and group affiliations may experience greater life enjoyment, a 'sense of belonging' and enhanced self-esteem. Individuals who develop a wide network of contacts also tend to have better career prospects and/or higher income. There is also evidence (section 3.2) that being socially connected improves individuals' health and longevity. Social networks can provide tangible assistance and care which may reduce psychic and physical stress; and research suggests that social capital might trigger a physiological mechanism stimulating individual's immune systems to fight disease and buffer stress. In summary, evidence from a range of studies suggests that well-connected individuals are more likely to be 'hired, housed, healthy and happy' (Woolcock 2001, 68) than those with few social connections.

While these can be seen largely as private benefits<sup>1</sup>, they are likely to create beneficial societal spill-overs. Specifically, well-connected people, being less likely to experience illness, depression or unemployment, for example, are less likely to draw on the (publicly funded) health and welfare systems. Their generally higher incomes should also mean that they remit more taxes. The act of developing or joining a network also provides benefits to other members.

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<sup>1</sup> Technically speaking, these benefits are 'private' insofar as that the person investing in the social capital accrues the benefits of that investment and takes those benefits fully into account in her or his decision making. As such, of themselves these benefits are not necessarily relevant considerations for government policy (see chapter 4).

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There is also evidence of intergenerational spill-overs. As reported by the OECD (2001), some studies have found that rates of child abuse tend to be higher in communities where social cohesion is lower, and that the social connectedness of mothers is a key factor in avoiding behavioural and emotional problems of children later in life. Runyan et al. (1998) have concluded: ‘the parents’ social capital... confers benefits on their off-spring, just as children benefit from the parents’ financial and human capital.’

## **2.5 Negative impacts: how social capital may harm individuals, the economy and society**

Many researchers have looked at social capital as being a desirable social asset that should be encouraged. As Woolcock (1998, 158) observes: ‘Most discussions of social capital proclaim it an unqualified “good”. After all, if a little trust, group participation, and cooperation are a good thing, should not more of it be better?’ Indeed, Cox and Caldwell (2000) advocate treating social capital as socially beneficial *by definition*.

While the approach advocated by Cox and Caldwell (which seeks to distinguish between ‘social capital’ and ‘solidarity’<sup>2</sup>) is not without merit, it requires an additional ‘normative’ judgment about whether a particular increase in norms, networks and associated trust is beneficial for society as a whole. Of course, normative judgments cannot be avoided at some point in the public policy process. But the Cox and Caldwell approach leaves open the temptation, against which Dasgupta (1999) cautions, of using the term social capital as ‘a peg on which to hang all those informal engagements we like, care for or approve of’.

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<sup>2</sup> Cox and Caldwell (2000, 49-50) criticise definitions of social capital that take it to have ‘a dark side’. They observe of this view: ‘It sees definitions of social capital as focussed on the ability of individuals to participate in collective action for mutual benefit, regardless of how this action itself is defined or what its broader intentions may be. A danger with views like this is that, taken to their logical extreme, they might have to regard a gang as a social capital source even when it is engaged in organising an armed robbery’. Cox and Caldwell go on: ‘We would prefer to call the capacity for collective participation, per se, “solidarity” and take it to be a necessary but not sufficient condition for the existence of social capital. ...[certain] forms of solidarity may be valuable in terms of successfully achieving specific projects, but we consider that only where the form of solidarity contributes to a further output beyond merely solidarity groups does it merit the label “social capital”’.

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Thus, the Commission has followed the increasingly more common approach in the literature of recognising that social capital can have both welfare-enhancing and welfare-reducing uses. In this respect, various authors have argued that social capital can create costs and problems in some instances. Just as physical capital can be used for socially good or socially bad purposes, depending on the circumstances and the actions of the user, so with social capital. This section outlines the main potential downsides.

### **Adverse effects on outsiders**

While social capital within a group will generally provide benefits to the members of that group, its translation into benefits for the broader community depends in part on the group's goals. In some cases, the achievement of group objectives may come at the expense of community wellbeing. As Ostrom (2000b, 176–177) points out:

Gangs and the Mafia use social capital as the foundation for their organisational structure. Cartels also develop social capital in their effort to keep control over an industry so as to reap more profits than would otherwise be the case. An authoritarian system of government based on military command and use of instruments of force destroy other sorts of social capital while building its own.

As well as intentionally deleterious behaviour, group behaviour can also have the effect of excluding outsiders from positions and opportunities. Portes (1998) lists several examples including the traditional monopoly of Jewish merchants over the New York diamond trade, and the dominance of Cubans over several sectors of the Miami economy. In each instance, 'the same social relations that...enhance the ease and efficiency of economic exchanges among community members [also] implicitly restrict outsiders' (Waldinger 1995, 557).

Further, Adler and Kwon (2000) argue that high levels of social capital within a particular group can undermine broader social capital within a community. Citing Foley and Edwards (1996), they note that social capital's solidarity effects can split the broader aggregate into 'warring factions or degenerate into congeries of rent seeking "special interests"'. Similarly, Woolcock (1998) cites research that strong, long-standing civic groups may stifle macroeconomic growth by, among other things, securing a disproportionate share of national resources.

### **Adverse effects on insiders**

Community or group participation often creates demands for conformity, which restrict individual freedoms. Portes (1998) observes that all inhabitants of some small villages and towns know each other and 'the level of social control in such

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settings is strong and also restrictive of personal freedoms, which is the reason why the young and the more independent minded have always left.’

Social norms and obligations within particular groups or communities can also stifle individual incentives to prosper, in a number of ways. One is by requiring successful group members to share significant portions of any resources or opportunities they acquire. A study of commercial enterprises in Bali has found that many successful entrepreneurs were:

constantly assaulted by job and loan seeking kinsmen. These claims were buttressed by strong norms enjoining mutual assistance within the extended family and among community members in general (Portes 1998, 16).

Similarly, Woolcock (1998) suggests that strong, long-standing civic groups may inhibit individual economic advancement by placing heavy personal obligations on members that prevent them from participating in broader social networks. Another way in which individual advancement is curtailed is through downward-levelling norms:

there are situations in which group solidarity is cemented by a common experience of adversity and opposition to mainstream society. In these instances, individual success stories undermine group cohesion because the latter is precisely grounded on the alleged impossibility of such occurrences. The result is downward levelling norms that operate to keep members from a downtrodden group in place and force the more ambitious to escape from it. (Portes 1998, 17)

Portes presents as an example the community of Puerto Rican ‘crack dealers’ in the Bronx, where individuals who wish to better themselves by joining mainstream society are often singled out and attacked by other members of the group in order to prevent them from doing so. More generally, in some communities, there may be strong internal agreement with strong norms and sanctions, and such communities may well exhibit high internal cohesiveness. However, many people would argue that some such norms and sanctions are detrimental to many of the insiders. Examples include sanctions against the education of girls in some developing countries, and the severe ostracism of members who disobey the norms of the Amish communities in the United States.

Finally, as noted earlier (section 2.4), overly strong in-group solidarity may reduce the inflow and uptake of new ideas into a group, leading to inertia and parochialism, and thus limiting the economic advance of the group members as a whole.

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## 2.6 Summing-up

The concept of social capital is evolving. Views differ about what constitutes social capital, how it operates, to whom and what the concept applies, and how to delineate between its sources, manifestations and effects. Nor is there agreement on whether social capital is always beneficial, and even on whether the matters referred to under the social capital label can sensibly be thought of as forms of ‘capital’.

These differences and uncertainties hamper discussion and analysis of social capital. Some academics have cautioned against the widespread, polemical use (and abuse) of the concept. Others, while aware of the concept’s current limitations, see potential for it to bridge interdisciplinary gaps and to enhance public policy.

What is broadly agreed is that social norms and/or social networks are key elements of social capital, and that trust is part of it or, at least, a close proxy for it. Social capital is widely seen as a resource that facilitates cooperation within or among networks of people, although social capital resides in relationships and thus cannot be ‘owned’ in a conventional sense. Social capital can arise in relationships in many areas of life, including those involving friends and families, school communities, ethnic, religious and community groups, occupational groupings, firms, governments and other institutions.

The literature identifies a range of potential sources of social capital, and factors that can influence the rate and extent of its formation (or destruction), although gaining a precise picture of the sources and determinants and how they operate is difficult. Among other reasons, there may be complex feedback effects between social capital, its sources and its effects.

The literature suggests that social capital may generate benefits for society in four main ways:

- by reducing transaction costs;
- by facilitating the dissemination of knowledge and innovation;
- by promoting cooperative and/or socially-minded behaviour; and
- through individual benefits and associated social spin-offs.

However, in some cases, aspects of social capital may have adverse effects. For example, strong group bonds can exclude outsiders and create an undue focus on the group’s needs to the detriment of the broader society. Group norms and sanctions may also stifle individual expression and initiative, and some groups’ norms and sanctions may not be seen as desirable or humane.

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## 3 The empirical evidence on social capital

Accompanying the burgeoning theoretical interest in social capital has been a body of literature dedicated to its measurement and empirical analysis. Studies have ranged from detailed examinations of social capital in particular localities or contexts to broad attempts to assess social capital and its effects across a number of countries.

Like the theoretical literature, the empirical literature is evolving. Because social capital as a concept is relatively new, multifaceted and imprecise, ‘hard data’ on it are not readily available. Inevitably, many early studies have had to rely on rough proxies for social capital and/or have been somewhat experimental. Hence, the results need to be interpreted with care; in most cases they are ‘suggestive’, rather than definitive.

In this chapter, the Commission summarises the empirical work on social capital to date, outlining the approaches taken and the results obtained.

- The next section describes the indicators and measures used to gauge social capital, and reports some estimates of levels and trends in different countries.
- Estimates of the effects of social capital, obtained by comparing the estimates of social capital with social and economic indicators, are reported in section 3.2.
- While the chapter does not critique individual studies, section 3.3 sets out a number of limitations of the empirical literature generally.
- The final section describes some recent methodological developments.

### 3.1 Measuring social capital

Empirical studies have used a wide range of variables as measures or indicators of social capital. Some studies have relied on a single ‘stand-alone’ variable; others have used multiple variables. Differences in the choice of variables have reflected data availability, the objective of the study, and the particular way the researcher has conceptualised social capital. The variables used include:

- survey responses to questions about trust;
- membership of trade unions, clubs and/or organised religions;

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- the density of credit cooperatives (in developing countries);
  - household or family characteristics, including parent-child ratios, patterns of elderly co-residence with their children, and residential stability; and
  - voter turnout, newspaper readership and attendance at religious schools.

A number of the variables are open to the criticism that they may not, in fact, measure or provide a reliable indication of the level of social capital (see section 3.3). This reflects the inherent difficulties in measuring social capital and the infancy of the field. It is important to understand the nature of, and trends in, the social capital ‘indicators’<sup>1</sup> used to date, as a precondition for the development of better tools as well as to appreciate what the current indicators do (and do not) reveal.

## International comparisons

The World Values Survey provides national data on basic values and beliefs in a number of developed and developing countries. The survey was first conducted in the early 1980s. Further surveys were conducted in 1991–93, 1995–97 and 1999–2000.<sup>2</sup>

Many researchers have used responses to the ‘trust’ question in the World Values Survey as an indicator of the level of social capital. Survey respondents are asked:

Generally speaking, would you say that most people can be trusted, or that you can’t be too careful in dealing with people?

Another indicator of social capital taken from the World Values Survey is the survey’s measure of ‘civic cooperation’. Knack and Keefer (1997, 1256) report that:

The strength of norms of civic cooperation is assessed from the responses to the question about which of the following behaviours ‘can always be justified, never be justified or something in between.’

- a) ‘claiming government benefits which you are not entitled to’
- b) ‘avoiding a fare on public transport’
- c) ‘cheating on taxes if you have the chance’
- d) ‘keeping money that you have found’
- e) ‘failing to report damage that you have done accidentally to a parked vehicle.’

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<sup>1</sup> For simplicity in this chapter, the Commission uses the term ‘indicator’ of social capital for any variable used in the empirical literature as a measure or indicator of social capital, without critiquing (or necessarily endorsing) the use of the particular variable for that purpose.

<sup>2</sup> The surveys are conducted by an international network of social scientists, coordinated by the Institute of Social Research at the University of Michigan (Inglehart 1999). The first two surveys (1981, 1991) covered 29 different countries, most of which were surveyed on both occasions (Knack and Keefer 1997). Subsequent surveys have been expanded to cover more than 65 societies.

Table 3.1 reports the levels of civic cooperation mainly from the 1981-83 surveys, and levels of trust mainly from the 1995-96 surveys. (Gaps in coverage preclude use of a single group of surveys).

Measures of civic cooperation are distributed reasonably closely, ranging between 43 per cent (India) and 36 per cent (France). Australia ranks 21st with 38 per cent. Other countries exhibiting high civic cooperation scores include Turkey, Japan and Sweden.

The level of measured trust varies significantly between countries, with Norway recording the highest reading of 65 per cent and Brazil the lowest of 3 per cent. Australia ranks 12th highest of the 29 countries, with 40 per cent.

Neighbouring countries tend to record similar levels of trust. The index has a clustering of Scandinavian nations near the top, and South American and African nations near the bottom.

A comparison with a trust index for 1981-83 reveals that measured trust in some English-speaking countries, namely Britain, the United States and Australia, has fallen (by 13, 10 and 8 percentage points respectively), while increasing in some other countries, such as Italy and Germany (9 and 12 percentage points).

That said, caution is required when interpreting these results, due in particular to the possible limitations of the trust index (see section 3.3).

The World Values Survey also includes questions on whether citizens belong to associations and are actively engaged in them. Some studies have used these as social capital indicators (see section 3.2). However, as Narayan and Cassidy (2001) point out, the measure of association is partial as it excludes characteristics of associations and many traditional organisations in developing countries.

**Table 3.1 World Values Survey measures of civic cooperation and trust**  
Per cent

<i>Country</i>	<i>Civic cooperation 1981-83<sup>a</sup></i>	<i>Trust 1995-96<sup>b</sup></i>
India	42.6	37.9
Turkey	42.4	6.5
Japan	41.7	46.0
Sweden	41.5	59.7
Austria	41.4	31.8 *
Italy	41.2	35.3 *
Iceland	41.0	43.6 *
Switzerland	40.8	41.0
Norway	40.7	65.3
Finland	40.6	47.6
United States	40.5	35.6
Denmark	40.3	57.7 *
United Kingdom	40.0	31.0
Germany	39.8	41.8
Canada	39.7	52.4 *
South Korea	39.6	30.3
Argentina	39.5	17.5
Nigeria	39.1	19.2
Spain	38.7	29.8
Netherlands	38.3	55.8 *
Australia	38.2	39.9
Belgium	38.0	33.2 *
Ireland	37.5	47.4 *
Brazil	37.5	2.8
South Africa	36.9	18.2
Chile	36.8	21.9 *
Portugal	36.8	21.4 *
France	36.2	22.8 *
Mexico	34.5	28.1

<sup>a</sup> As constructed by Knack and Keefer (1997). Some responses from 1990-91 survey. <sup>b</sup> Trust is the percentage of respondents (after deleting the 'don't know' responses) who said that most people could be trusted. Countries marked with \* are from the 1990-91 survey.

Sources: Knack and Keefer (1997); RECD (2001).

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## Country studies

In *Making Democracy Work*, a study of social capital and governmental effectiveness within Italy, Putnam (1993) devised an index of ‘civic engagement’ using four indicators. The indicators are: the density of clubs and associations in each region; newspaper readership (which was used as a gauge of interest in civic affairs); voter turnout; and preference voting in general elections. Putnam found that, in general, the southern regions of Italy exhibited significantly less civic engagement than those of the centre and north. Putnam argued that this pattern reflects deep-seated historical differences, such as the establishment of ‘communal republics’ in places like Florence, Bologna and Genoa in the eleventh century. Such reforms were not undertaken in ‘uncivic’ regions such as Calabria and Sicily.

### Box 3.1 Putnam’s indicators of social capital for the United States

Measures of community or organisational life:

- Percentage of individuals who served on a committee of a local organisation in the last year (0.88<sup>a</sup>)
- Percentage of individuals who served as an officer of some club or organisation in the last year (0.83)
- Civic and social organisations per 1000 population (0.78)
- Mean number of club meetings attended in the last year (0.78)
- Mean number of group memberships (0.74)

Measures of engagement in public affairs:

- Turnout in presidential elections, 1988 and 1992 (0.84)
- Percentage of individuals who attended public meeting on town or school affairs in last year (0.77)

Measures of community volunteerism:

- Number of non-profit organisations per 1000 population (0.82)
- Mean number of times worked on a community project in last year (0.65)
- Mean number of times did volunteer work last year (0.66)

Measures of informal sociability:

- Percentage of individuals who agree that ‘I spend a lot of time visiting friends’ (0.73)
- Mean number of times entertained at home last year (0.67)

Measures of social trust:

- Percentage of individuals who agree that ‘most people can be trusted’ (0.92)
- Percentage of individuals who agree that ‘most people are honest’ (0.84)

<sup>a</sup> The figure in brackets indicates the item’s coefficient of correlation with the final constructed measure across the individual states of the United States.

Source: Putnam (2000).

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In *Bowling Alone*, a study of social capital in the United States, Putnam (2000) constructed a composite indicator using 14 variables (see box 3.1), grouped to measure five separate dimensions of social capital. The dimensions are: community or organisational life; engagement in public affairs; community volunteerism; informal sociability; and social trust. Across individual US states, all indicators were positively correlated with the final constructed indicator (with coefficients of correlation ranging from 0.65 to 0.92). Putnam argued that this indicates that there is a common factor underlying the various indicators.

Putnam found that, while the level of social capital varied across different states, social capital has generally diminished over the past three decades. The US National Commission for Civic Renewal (1996) (a non-government organisation) reached a similar conclusion in an earlier study.<sup>3</sup> Paxton (1999) also found that trust has declined in the United States over the last two decades but, by her measure, associational activity remained unchanged throughout the period.<sup>4</sup>

In a study that mirrors Putnam's study of United States, Hall (1999) examined social capital in Britain. Hall utilised various indicators to gauge five dimensions of social capital, namely: membership of voluntary organisations; volunteer work; charitable endeavours; informal sociability; and levels of social trust. He found that levels of social capital — derived by considering all five dimensions together — 'have not declined to an appreciable extent in Britain over the post war years'. However, he also noted that the level of social trust declined over this time (from 56 per cent in 1959 to 44 per cent in 1990). This aspect of his results appears similar to Paxton's (1999) finding for the United States.

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<sup>3</sup> The US National Commission for Civic Renewal (NCCR 1996, reported in Narayan and Cassidy 2001) developed a 'civic health' index comprising five equally weighted dimensions: political engagement; trust; associational membership; security and crime; and family stability and integrity. Each dimension incorporated a number of measures. For example, the trust dimension included indicators of trust in others and trust and confidence in the federal government. The associational membership dimension included indicators of membership in groups or church attendance, charitable contributions, local level participation and serving as an officer in local groups. And the security and crime dimension encompassed murder rates in the youth population, fear of crime and survey-reported crime levels. The study found that, although trends in the different dimensions had varied since 1974, overall there has been a consistent decline in civic participation over the last three decades in the United States.

<sup>4</sup> Paxton looked at the change in social capital in the United States over the period from 1975 to 1994. She used two indicators of social capital — a measure of associational activity and a measure of trust — which she also combined into a composite measure of social capital. She found that the measure of trust has shown a 'strong and consistent decline' of about 0.5 per cent per year over the 20 year period, but that the measure of associational activity has remained unchanged throughout the period. The composite measure shows a steady decline (reflecting the fall in trust) since the late 1970s.

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The OECD (2001) has reported several other studies of member countries. A selection of their findings follows:

- The Netherlands — De Hart and Dekker (1999) found that membership of, and intensity of engagement with, most kinds of organisations was increasing and that volunteering (between 1980–1985) had increased slightly.
- Sweden — Rothstein (1998) found that there is a declining level of trust in political organisations as well as a move from ‘active’ to ‘passive’ participation and interest. Rothstein also noted that membership of single-issue organisations has grown in importance relative to ‘mass organisations’.
- France — Worms (2000) found evidence indicating no overall decline in associational life, although membership of some organisations (such as unions and political parties) has declined.
- Germany — Offe and Fuchs (1998) found that, over the post war period, formal participation and informal sociability have increased, although membership of unions, political parties and churches has declined.
- Japan — Inoguchi (2000) found some evidence of rising levels of civic engagement and membership of non-governmental organisations.

In the Australian study reported by the OECD, Cox (2000) compiled evidence on a range of indicators to build a picture of the nature of, and trends in, social capital. Cox reported that many traditional community organisations — including trade unions, the mainstream churches, scouts and guides, service clubs such as APEX and Lions, and the Country Women’s Association — had experienced significant declines in membership over the period from the 1960s to the 1990s. Although historical data on the level of (formal) volunteering is patchy, ABS surveys suggest that the level of participation in voluntary groups declined significantly between the early 1980s and the mid 1990s (although it has since made a recovery).<sup>5</sup> Meanwhile, television watching had increased while informal socialising had declined. While several indicators pointed to a decline in political engagement, there was also some countervailing evidence.<sup>6</sup> In relation to trust, Cox drew on the World Values Survey results for Australia (see earlier) and other surveys to conclude that interpersonal trust and trust in institutions fell between the 1980s and

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<sup>5</sup> The ABS has collected Australia-wide data on the level of volunteering only since 1995. However, earlier ABS surveys put the level of volunteering in Victoria and Queensland in 1982 at 27 and 26 per cent for men, and 30 and 31 per cent for women, respectively. These levels fell to 18 and 18 percent (men) and 22 and 24 per cent (women) respectively in 1995. Similarly, a 1988 survey in South Australia put the level of volunteering at 28 per cent, as against 20 per cent in 1995. The most recent *Voluntary Work Survey* (ABS 2001) indicates that the level of volunteering Australia-wide increased from 24 per cent in 1995 to 32 per cent in 2000. The latter figure excludes volunteering associated with the Sydney Olympics.

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1990s. Among other things, people's fears of falling victim to crime were reported to have increased, even though crime rates had fallen. Cox also reported survey data showing a decline in trust in several business-related professions as well as in politicians and the public sector<sup>7</sup>, although trust in some occupations, including teachers, doctors, nurses and police, had increased.

### **Local level studies**

Some researchers have attempted to measure social capital in particular communities. These studies have often entailed the use of dedicated surveys of residents or community groups, designed to examine different facets of social capital 'on the ground'. For example:

- Narayan and Princhett (1997) constructed a measure of social capital from a survey of 87 villages in rural Tanzania, which examined social capital and 'village-level outcomes'. Their measure focussed on three aspects of social capital: the individuals' membership in groups; the characteristics of those groups; and the individuals' values and attitudes, 'particularly their definition, and expressed level, of trust in various groups, and their perception of social cohesion'. Survey recipients were also asked about the characteristics of each group of which the individual was a member, including the income and kinship make-up of the group and its functioning and decision-making processes.
- Onyx and Bullen (1997) sought to measure social capital in five localities in New South Wales using a 68-question survey. They identified eight broad elements related to social capital, namely: participation in local community; neighbourhood connections; family and friends connections; work connections; proactivity in a social context; feelings of trust and safety; tolerance of diversity; and value of life. (Interestingly, the survey data on government institutions and policy did not appear to be related to the other indicators of social capital used in

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<sup>6</sup> On the one hand, survey data showed that there had been a decline in the number of people watching television news between 1987 and 1996, which was seen to be indicative of waning political interest, and that interest in elections had diminished. Cox also noted that, in recent times, few Australians have attended political party meetings. On the other hand, data from the World Values Surveys for 1983 and 1995 indicated increases in the frequency with which Australians discussed political matters, and in the proportion of Australians who had or might sign petitions, join boycotts or attend legal demonstrations. Cox also noted a tendency towards involvement in cause-specific organisations, such as feminist and environmental groups, although membership of these was also reported to have declined from the 1980s to the 1990s.

<sup>7</sup> Cox reported evidence that egalitarian sentiment had remained fairly constant between 1987 and 1996, which she contrasted with reductions in household income equality. Cox suggested that this contradiction may help explain the decline in trust.

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the study, although this may reflect aspects of the study's methodology.<sup>8</sup>) Onyx and Bullen found that, relative to the three metropolitan communities surveyed, the two rural towns (West Wyalong and Deniliquin) had significantly larger amounts of social capital overall, but did not rank as highly in terms of 'tolerance of diversity'.

- Barr (1999) used experimental game theory techniques<sup>9</sup> to measure trust and familiarity in selected black communities in Zimbabwe. Using an investment game and an ultimatum game, the study attempted to examine the effects that the resettlement of black communities had on trust. People in established villages were found to trust each other more than those in resettled villages. Barr attributed this to greater familiarity between people in established villages.

## Contextual studies

Alongside attempts to gauge the level of social capital in particular areas (local, regional and national), some researchers have attempted to devise indicators of social capital in particular contexts.

An example is Coleman's (1988) study on how some aspects of social capital can augment the development of human capital in children. Coleman argued, in the United States context, that elements of social capital relevant to children's academic success could be proxied by attendance at religious schools.<sup>10</sup> and the number of children per parent in the household.<sup>11</sup> Citing US survey data on school type (public, private or religious), parent-child ratios and retention rates, and controlling for some other factors such as socioeconomic status and ethnicity, Coleman showed that his social capital indicators were positively related to enhanced academic success.

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<sup>8</sup> Stone and Hughes (2002) point out that Onyx and Bullen were attempting 'to match institutional trust with different dimensions of social capital measured on a different social scale' and, having found no association between confidence in government and items relating to individual's local and informal networks, concluded that social capital is more about immediate and personal relationships than distant and formal relationships with institutions. However, Stone and Hughes argue that 'it may be that institutional trust relates to whether or not one has institutional connections (for example, their parents work for the government), and the quality of their engagement with these institutions (for example, whether in their encounters with police, the legal system, welfare agencies and so on, they have been treated with respect or disdain).' Narayan and Cassidy (2002) have also noted that the questions in the Onyx and Bullen study were not specifically related to the *quality* of interactions with government agencies.

<sup>9</sup> Experimental game theory techniques involve placing a subject into a situation or dilemma (the game) and then recording and analysing their responses. Usually, a game involves two or more subjects interacting with one another. For example, in Barr's 'investment' game, both players were given an endowment of money. The first player had the option of giving some of his/her money to the second player (making an investment). That amount was then tripled before being given to the second player. The second player then had the option of giving some portion back to the first player.

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## 3.2 Estimating effects

Many empirical studies have attempted to draw relationships between social capital and other aspects of the economy and society. Researchers have taken indicators of social capital (such as those described above) and compared them, generally using correlations or regression analysis, with other economic or social variables.

In addition, some researchers such as Putnam (2000), in attempting to build up a broad picture of the effects of social capital, have marshalled other existing research that does not utilise the concept of social capital directly or explicitly. However, this supporting research still contains findings that are deemed to have relevance for understanding the effects of social capital.

Most of the research has found that the indicators of social capital used are positively related to indicators of government efficacy as well as a range of social and economic variables.

Many of the studies are open to criticism due to the data and methodologies used. This partly reflects the difficulties inherent in measuring and conceptualising social capital. Further, establishing the direction and extent of any causal link between social capital and the variables of interest is not straightforward because, among other things, it is plausible that high levels of social and economic wellbeing can lead to higher social capital, rather than (or as well as) the reverse.

Nevertheless, it is important to understand the broad scope, methodological approaches and findings of the empirical work undertaken to date, and what it suggests about the effects of social capital. The following is *a selection* of studies, explaining the variables selected and the results obtained. The selection draws in particular on the comprehensive reviews by Putnam (2000) and the OECD (2001). General limitations of these studies are discussed in the section 3.3.

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<sup>10</sup> Coleman suggested that the social structure enveloping religious schools enhanced academic success. Coleman posited that common religious bonds among such parents enforced norms of academic work and achievement, with parents providing valuable social resources for such schools.

<sup>11</sup> Coleman argued that ‘if the human capital possessed by parents is not complemented by social capital embodied in family relations, it is irrelevant to the child’s educational growth that the parent has a great deal, or a small amount, of human capital.’ Coleman posited that a two parent household would manifest a larger amount of ‘social capital within the family’ that could be used to help educate the children than a single parent household, as the parents would have more time to allocate to this function. For the same reason, he suggested that a two-sibling household would manifest more of such social capital (per child) than a five-sibling household. Some limitations of Coleman’s approach are set out in Winter (2000a).

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## Economic performance

Several researchers have investigated whether there are links between indicators of social capital and a range of economic variables, including personal income, investment, productivity and GDP.

A number of these studies have involved cross-country comparisons using trust and civic cooperation indexes from the World Values Survey:

- Knack and Keefer (1997) found that a 10 percentage point rise in the trust index is associated with a 0.8 percentage point increase in annual per capita GDP growth over the period from 1980 to 1992, and that each 8 percentage point rise in civic cooperation is associated with an increase in growth of more than one per cent;
- La Porta et al. (1997) found that, for the period 1970–1993, a one standard deviation rise in trust is weakly associated with an increase in average annual GNP growth per capita (of about 0.3 per cent);
- Knack (2000) found a statistically significant and positive correlation between trust and the level of investment in 25 OECD countries; and
- Helliwell (1996), on the other hand, found that the trust index was negatively related to GDP growth in a sample of 17 OECD countries.

That said, particular care is needed in interpreting the role of trust measures in cross-country economic growth regressions (see section 3.3).

Inglehart (1997), also using data from the World Values Survey, found no correlation between the survey's index of group membership and economic growth. However, there was a slight positive correlation between group membership and economic growth for poorer countries, and a slight negative correlation between these variables for richer countries. Inglehart suggested that this supports the view that voluntary organisations play positive roles in the early stages of economic development.

Temple and Johnson (1998) examined an index, constructed in the 1960s, of 'social capability'<sup>12</sup> in developing countries, and found that it is a good predictor of subsequent growth patterns. For example, in a result that the authors argued had relevance for social capital, they found that a one standard deviation increase in the extent of mass communications (radio use and newspaper circulations) would raise the growth rate of total factor productivity by one percentage point.

At the individual country level, Helliwell and Putnam (1995) found that social capital (as measured in Putnam 1993 — see section 3.1) was positively related to real GDP growth per capita in a study of Italian regions.

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On the other hand, in an analysis of social capital and industrialisation within Indonesia from 1985 to 1997, Miguel, Gertler and Levine (2001) found that initial levels of social capital (proxied by the density of sporting and cultural groups, patterns of elderly co-residence and other indicators) in a district did not predict the speed or success of industrial development<sup>13</sup> or income growth. Rather, the authors found that industrialisation in a district *led* to an increase in social capital, in the form of a higher density of community groups. This was accompanied, however, by a decline in social capital in areas surrounding rapidly developing districts as the population migrated to the industrialising area and existing community groups collapsed.

At a more micro level, a study of social capital in regional villages in Tanzania (Narayan and Princhett 1997) found that increases in the study's measure of social capital are correlated with greater personal income.<sup>14</sup> The authors stated that a one standard deviation rise in their social capital measure would 'increase a household proxy for income by at least 20 to 30 per cent'. This effect is significantly larger than the effect of a one standard deviation rise in schooling or physical assets (3 to 5 per cent and 19 to 22 per cent respectively).

There is also evidence that social capital can enhance individual's labour market outcomes. The OECD (2001) reports research showing that, in a number of European countries, social capital is a valuable resource for finding employment, with job search hinging on the range of people with whom the individual is connected and can rely on. Within Australia, Stone, Gray and Hughes (2003) found that individuals who are 'social capital poor'<sup>15</sup> are less likely to be in employment (particularly full-time employment) and are more reliant on friends, family and responding to advertisements for finding work than people with greater levels of social capital. The latter are more likely to directly approach an employer or rely on 'professional contacts'.

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<sup>12</sup> Social capability is a broader measure than social capital and is proxied using an index of 22 social and economic variables. It includes a number of commonly used indicators of social capital, such as newspaper readership and social and political participation (voluntary organisations), as well as some other variables, such as literacy and fertility rates.

<sup>13</sup> As measured by the proportion of people working in the manufacturing sector.

<sup>14</sup> The indicator of income was the 'total consumption expenditures per person ... including imputations for own produced consumption and for consumer durables (for example, housing)'.

<sup>15</sup> The typology used by Stone, Gray and Hughes is explained in box 3.2 (section 3.4).

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## Governmental efficacy

La Porta et al. (1997) and Knack (2000) examined the relationship between social capital and governmental performance using cross-country analysis for 29 (mainly developed) countries. The trust index from the World Values Survey was used as a proxy for social capital. The authors reported that a one standard deviation rise in trust (holding GNP constant) was associated with a 7 percentage point increase in judicial efficiency, a 3 percentage point fall in corruption, a 3 percentage point increase in bureaucratic quality and a 5 percentage point increase in tax compliance.

In *Making Democracy Work*, his study of social capital and democratic institutions in different Italian regions since the 1970s, Putnam (1993) found that civic participation (measured as described in section 3.1) was related to the performance of regional governments, as measured by twelve (objective and subjective) indicators of ‘policy processes, pronouncements and implementation’.<sup>16</sup> The UKPIU (2002) reports that research has found similar outcomes in Germany, Hungary and Russia.

In *Bowling Alone*, Putnam (2000) found his composite indicator of social capital in the United States (see box 3.1) to be negatively correlated to data on tax evasion across US states: that is, tax compliance is higher in high social-capital states. Further, after controlling for state differences in social capital, per capita income, income inequality, racial composition, urbanisation and education levels, social capital was the only factor found to successfully predict tax compliance.

In a survey-based study of 114 communities in the US state of Iowa, Rice (2001) found several elements or indicators of social capital (interpersonal trust, civic engagement, networks and ‘political equality’<sup>17</sup>) to be positively and significantly correlated with two measures of governmental performance (responsiveness and effectiveness<sup>18</sup>). This link persisted after regression analysis was used to control for income, income dispersion, age dispersion, racial homogeneity and town size.

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<sup>16</sup> Putnam’s indicators of governmental performance are: cabinet stability, budget promptness, extent of statistical and information services, extent of reform legislation, degree of legislative innovation, provision of daycare centres, the provision of family clinics, the range of industry policy instruments used, agricultural spending capacity, local health unit expenditures, funding for housing and urban development, and the responsiveness of bureaucracy to citizen enquiries.

<sup>17</sup> To assess ‘interpersonal trust’, survey respondents were asked about their perceptions of the level of trust in their town. ‘Political equality’ and ‘civic engagement’ were assessed by the degree of agreement with the statements ‘everyone in your town is allowed to contribute to local government affairs if they want to’ and ‘when something needs to get done in your town the whole community usually gets behind it’. The extent of ‘networks’ were assessed by asking respondents of how many voluntary organisations they are a member.

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## Education and child welfare

Putnam (2000) found his composite indicator of social capital in the United States to be positively correlated to an index of the educational performance of children across US states. The index contained various student test scores and school dropout rates. Further, regression analysis showed that Putnam's social capital indicator was ('astonishingly') the single most important explanatory factor of performance, after taking account of several other factors including racial composition, affluence, adult education levels and poverty rates. Putnam also noted that 'informal' social capital (social trust and informal connections between people) is a stronger predictor of student achievement than his measure of the level of 'formal' institutionalised social capital. Putnam also found his social capital indicator to be correlated with a lower rate of television viewing among children, which he considered might be one reason for lower education performance.

Certain school characteristics have also been linked to social capital and educational outcomes. One is school size. According to Putnam (2000, 304): 'Studies going back thirty years have shown that small schools tend to outperform large schools in large part because smaller schools afford more opportunities and encouragement for students to engage with one another in face to face extracurricular activities and to take responsibility for schools clubs and so forth'. Another is whether the school is religious. For example, in a study mirroring aspects of an earlier study by Coleman (1988 — see above), Bryk, Lee and Holland (1993) found that catholic schools in Chicago generally outperform public schools, which the authors attributed to the social structures surrounding the catholic schools.<sup>19</sup> Similarly, Teachman, Paasch and Carver (1997) used 'attendance at catholic schools' as an indicator of social capital, together with measures of family structure and the number of times a student changed schools. All these indicators of social capital had a negative and significant effect on school dropout rates in the United States.

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<sup>18</sup> Government 'responsiveness' was measured by assessing the degree of agreement with the statement 'If I called a city office here with a complaint, I would likely get a quick response.' Government 'effectiveness' was assessed by asking survey respondents to rate 'the overall quality of government services' in their town.

<sup>19</sup> Bryk, Lee and Holland studied catholic and public schools in Chicago, finding that catholic schools have generally higher performance. Using regression analysis, they found that differences in social structures and relationships between children and teachers contribute to this performance gap, even after taking account of other factors such as teacher backgrounds and student demographics. They argued that the structure of catholic schools — which are generally smaller, have a higher range of extracurricular programs and more agreement about the schools aims and ambitions — contributes to increased performance.

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Studies have generally found positive links between indicators of social capital and measures of other aspects of children's welfare. For example:

- Putnam (2000) found his composite indicator of social capital to be highly positively correlated to a composite index of child welfare in the United States, which includes items such as infant mortality and juvenile death rates, family structures and poverty rates, and data on teen births, high school drop-outs, youth unemployment and crime<sup>20</sup>. Further, regression analysis showed that social capital 'is second only to poverty in the breadth and depth of its effects on children's lives'.
- In a longitudinal study of disadvantaged preschool children in four US cities, Runyan et al. (1998) found that their indicator of the social capital<sup>21</sup> of the mother was the best predictor of a child's ability to avoid behavioural and emotional problems.
- Garbarino and Sherman (1980) studied two neighbourhoods with similar demographics (in terms of income levels, rate of working women, single parent households, education levels etc) but with differing rates of child abuse. They found that people in the high child-abuse neighbourhood were less likely to ask for help or exchange childcare with neighbours, or to allow children to play with others. Further, children in the low abuse neighbourhood were three times as likely to find a parent at home after school.
- Similarly, Putnam (2000) cites a number of other studies by community psychologists that find that child abuse rates and levels of youth depression are higher when 'neighbourhood cohesion' and 'neighbourhood support' are lower.

In summing-up his analysis and review of the literature, Putnam (2000, 296) states:

Child development is powerfully shaped by social capital. A considerable body of research dating back at least fifty years has demonstrated that trust, networks, and norms of reciprocity within a child's family, school, peer group, and larger community have wide-ranging effects on the child's opportunities and choices and, hence, on his behaviour and development. Although the presence of social capital has been linked to various positive outcomes, particularly in education, most research has focussed on the

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<sup>20</sup> The 'Kids Count' index comprises ten items, namely: percentage of low birth weight babies; infant mortality rate (deaths per 1000 live births); child death rate (deaths per 100 000 children aged 1–14); deaths per 100 000 teens aged 15–19 by accident, homicide, and suicide; teen birth rate (births per 1000 females aged 15–17); per cent of teens who are high school dropouts (aged 16–19); juvenile violent-crime arrest rate (arrests per 100 000 youths aged 10–17); per cent of teens not attending school and not working (aged 16–19); percentage of children in poverty; and percentage of families with children headed by a single parent.

<sup>21</sup> Runyan et al. used five indicators to assess social capital, namely: the presence of two parents in the household; the presence of more than two children in the household (negative for social capital); attendance at religious ceremonies (eg church attendance); the results of a functional social support questionnaire; and the results of a neighbourhood support questionnaire.

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bad things that happen to kids who live and learn in areas where there is a deficit of social capital. The implication is clear: Social capital keeps bad things from happening to good kids.

## Health

A number of studies have linked social capital to a range of health and wellbeing outcomes, such as mortality rates, reported happiness, and rates of depression and heart disease. In its review of the literature, the OECD (2001, 52) noted:

Perhaps the most convincing evidence of the positive impact of social capital lies in the area of personal health. Already in the nineteenth century, the sociologist Emile Durkheim found a close link between incidence of suicide and the degree to which individuals are integrated into society. He found that rates of suicide increased in periods of rapid social change. The effect was attributed to disruption of the social fabric of society and weakened social connectedness. Putnam [2000] cites the results of numerous studies, which indicate a link between social connectedness on the one hand and health and personal well-being on the other (after controlling for social, racial and demographic characteristics of individuals). Longevity also appears to be affected by the extent of social connectedness. He suggests two possible reasons for these links: *i*) social networks furnish tangible assistance and care which reduce psychic and physical stress; and *ii*) social capital might trigger a physiological mechanism stimulating individual's immune systems to fight disease and buffer stress.

Again, Putnam's own indicator of social capital itself is strongly<sup>22</sup> and positively correlated to a composite index of good health outcomes in the United States. The index included indicators such as health-care expenditures, suicide rates, sexually transmitted disease rates, infant mortality rates and immunisation rates.

Kawachi et al. (1999), using survey data from the United States, also found that social capital (proxied by civic trust<sup>23</sup>, perceived reciprocity<sup>24</sup> and membership in voluntary organisations) was positively correlated with good health outcomes. The researchers found that 'the magnitude of risk associated with living in a low social capital state ... approaches that of risk factors such as being a current smoker or being obese.'

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<sup>22</sup> The coefficient of correlation was 0.78.

<sup>23</sup> Measured using the question, 'generally speaking, would you say that most people could be trusted?'

<sup>24</sup> Measured using the question, 'would you say that most of the time people try to be helpful, or are they mostly looking out for themselves?'

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In a study of social capital and individual health in Russia, Rose (2000) found that various indicators of social capital<sup>25</sup> are an important determinant of self-assessed physical and emotional health.<sup>26</sup> The 18 social capital indicators used in the study were found to explain 16 per cent of the variance in physical health and emotional health. After controlling for variables such as age, sex, education and household income, the study found that social capital continues to have a significant impact on emotional and physical health. Nevertheless, several of Rose's individual indicators of social capital have no significant impact on health outcomes. Rose noted, for example, that:

Most indicators of social integration consistently fail to appear significant influences on health. Belonging to organisations, assumed to be a major indicator of social capital in many studies of western societies, is insignificant as an influence on Russian emotional health.

Rose argued that Russians relied more strongly on informal social capital than on the formal institutions of the state to deal with problems.

In Australia, a study<sup>27</sup> of social capital and health in Adelaide found that individual's 'social participation'<sup>28</sup> had a strong link with their health status, although 'civic participation'<sup>29</sup> did not. These relationships remained after the

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<sup>25</sup> Rose used 18 indicators from the New Russia Barometer survey to measure social capital, divided into three groupings. The 'social integration' variables included respondents' participation in voluntary groups; church attendance; whether respondents relied on the governments for welfare help; whether the respondent had a Communist Party member in the family, whether respondents believe that they can control what happens in their life; and a measure of trust. 'Generic social capital' indicators sought to gauge respondents participation in different types of networks — informal, anti-modern, and market. Rose also included 'situation-specific' health variables, including whether respondents had someone to rely on when ill, and whether they exercise with others.

<sup>26</sup> Respondents of the New Russia Barometer survey were asked to assess their physical health and emotional health over the past twelve months as being either very good, good, average, poor or very poor.

<sup>27</sup> The study was conducted in 1997–98 and focussed on the western suburbs of Adelaide. It included (in part) a postal survey that drew on responses from more than 2500 residents. Respondents' health status was determined using a standard 12 question component of the survey, which was used to develop scores for both mental and physical health.

<sup>28</sup> 'Social participation' was scored according to respondents' reported levels of informal social participation, such as visits with family, friends and neighbours; social activities in public, such as attendance at a restaurant, bar, cinema or dance, and group activities such as playing sport, attending an exercise class, and being involved in a hobby, singing group or self-help group.

<sup>29</sup> 'Civic participation' was scored according to respondent's reported levels of individual civic activities, such as signing a petition, contacting a local MP, attending a protest meeting or writing a letter to the editor; and group activities, such as involvement in a resident or community action group, political party, trade union or local government.

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researchers controlled for the effects of age and socioeconomic status. On the basis of further analysis, the authors concluded that:

Becoming involved in the social life of the local community, therefore, does improve health and it appears to act as a buffer to poorer health as age increases and socioeconomic status declines (Baum et al. 2000, 257).

Studies of mortality rates have found them to be linked with numerous factors related to social capital, including:

- social and community ties (Berkman and Syme 1979);
- phone calls and visits with friends and relatives, and perceived social support (Blazer 1982);
- membership in voluntary groups and attendance at spectator events (sports, plays, movies etc), for males only<sup>30</sup> (House, Robbins and Metzner 1982);
- church attendance, for females only<sup>31</sup> (House, Robbins and Metzner 1982);
- social integration<sup>32</sup> (Siahpush and Singh 1999); and
- social activities<sup>33</sup> (Welin et al. 1985).

Studies have linked factors related to social capital to other health outcomes:

- In a study of recent immigrants to the United States from Asia, Kuo and Tsai (1986) found that individuals with significant numbers of close ties were more likely to avoid mental health problems.
- In a study of 274 individuals from Pittsburgh, Cohen et al. (1997) found that many types of social ties<sup>34</sup> were associated with 'greater resistance to upper respiratory illness' (common colds).

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<sup>30</sup> This finding held for males only; increased membership in voluntary groups and attendance at spectator events showed no significant effect on the mortality rates of females.

<sup>31</sup> This finding held for females only; increased church attendance showed no significant effect on the mortality rates of males.

<sup>32</sup> The authors measured 'social integration' using several indicators: the proportion of people living alone; the divorce rate; the unemployment rate; and the number of discouraged job seekers. One further measure, union membership, was found not to be related to the mortality rate.

<sup>33</sup> Activities were grouped into three categories: home activities (such as gardening, reading, studying, car/house maintenance); outside home activities (such as swimming, fishing, attending sporting or cultural events, travelling); and social activities (such as hosting parties, participating in organised sports, visiting friends and relatives).

<sup>34</sup> Social ties are assessed by whether or not the subject had communicated with any of 12 possible classes of contacts such as parents, spouse, close neighbours, workmates or fellow members of a religious organisation in the past two weeks. People with one to three types of relationships were found to have four times the risk of catching the cold as people with more than six types of relationships. Such an association continued after controlling for a number of other variables such as age, gender, race and body mass index.

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- In a study of military units in the US army, Manning and Fullerton (1988) found that highly cohesive military units<sup>35</sup> reported higher levels of mental and physical health and greater satisfaction with their career.

## Crime and violence

Several studies have suggested that reduced levels of social capital are associated with higher rates of crime and violent behaviour.

- Sampson and Raudenbush (1997) studied 343 neighbourhoods in Chicago and found that ‘collective efficacy’ (defined as ‘social cohesion combined with individuals’ willingness to intervene on behalf of the common good’<sup>36</sup>) was a ‘robust predictor of lower rates of violence’.
- Putnam (2000) found his composite indicator of social capital to be negatively correlated with homicide rates across the United States and with ‘pugnaciousness’<sup>37</sup>, which he considers indicative of violent behaviour.
- The OECD (2001, 54) reported other US studies as showing that ‘...even controlling for poverty and other factors that might encourage criminal behaviour, communities characterised by *i*) anonymity and limited acquaintance among residents; *ii*) unsupervised teenaged peer groups; and *iii*) low level of civic participation, face an increased risk of crime and violence.’

However, a cross-national study (Halpern 2001) confounds this apparently simple relationship somewhat. Using data from an *International Crime Victims Survey* to examine crime rates and social capital across 18 countries, Halpern found that two-thirds of cross national variation in crime rates could be accounted for by levels of

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<sup>35</sup> Special Forces ‘A-teams’ — which according to a survey had greater availability of social support from the army and colleagues — were taken to be highly cohesive units. These were compared with airborne infantry and mechanised units, which were taken to represent regular forces. The study attempted to control for the influence of rank and some other personal characteristics on health and wellbeing by considering data for non-commissioned officers only. However, it did not control for different levels of training or differences in pre-existing health, wellbeing or personality characteristics.

<sup>36</sup> This was measured using a survey. Residents were asked if their neighbours could be counted on to intervene in a number of situations (for example, if children were skipping school, spraying graffiti on a wall or if a fight broke out in front of their house). Residents were also asked how strongly they agreed with a number of statements, such as ‘people in this neighbourhood can be trusted’, ‘this is a close-knit neighbourhood’ and ‘people in this neighbourhood do not get along with each other’.

<sup>37</sup> ‘Pugnaciousness’ is measured by the level of agreement with the statement ‘I’d do better than average in a fist fight’.

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economic inequality<sup>38</sup>, self-interested behaviour<sup>39</sup>, and social trust<sup>40</sup>. As expected, higher levels of economic inequality and of self-interested behaviour were both associated with higher crime rates.<sup>41</sup> Curiously though, so too were higher levels of social trust, after self-interested behaviour and inequality were controlled for. The direction of causality is not known, but Halpern (2001, 248) hypothesised that:

The three variables in the model act in concert in the determination of national differences in crime levels, rather like ‘motive’, ‘opportunity’ and ‘means’ in an individual crime. Inequality provides the ‘motive’ through a gulf of material difference in society. Social trust helps provide the ‘opportunity’ through ensuring a fuller supply of easy victims. Finally, self-interested values provide the ‘means’ through releasing, or psychologically allowing, a behavioural repertoire that more readily includes offending.

## Equality

In its review, the OECD (2001) drew on the results of a number of studies to assess the relationship between social capital and various aspects of equality. Among other things, it noted that:

- countries with high levels of trust and social engagement tend to be more equal in terms of income, adult literacy and access to further learning, although the direction of causation between social capital and equality is uncertain. Economic inequality may be both a cause and consequence of inequality in social capital;
- acute forms of ‘social exclusion’ (by social, ethnic, gender or regional status) appear to go hand-in-hand with lower levels of trust and civic engagement, especially of the bridging type. Social capital can mediate differences in overall literacy or learning outcomes. However, the links between social capital, social exclusion and inequalities in health are uncertain; and
- some studies suggest that social capital can act to entrench social fragmentation in countries polarised along lines of class, ethnicity or language, but many multi-racial and linguistically diverse societies have managed and, indeed, harnessed their diversity with positive outcomes.

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<sup>38</sup> Taken to be ‘the ratio of the percentage share of household income between the highest and lowest 20 per cent of the population within each nation’.

<sup>39</sup> The measure of ‘self-interested behaviour’ is taken from the World Values Survey and expands upon the measure of civic cooperation outlined in section 3.1. In addition to the five items outlined in section 3.1, the study assesses the level of respondents’ acceptance of a further 19 items, such as ‘lying in your own interest’, ‘throwing away litter in a public place’, ‘political assassinations’, ‘fighting with the police’ and ‘threatening workers who refuse to join a strike’.

<sup>40</sup> The measure of ‘social trust’ was taken from the World Values Survey (see section 3.1).

<sup>41</sup> In measuring crime rates, Halpern assesses ‘victimisation rates’ relating to 11 crimes in each country. He also uses a second measure containing a subset of five major crimes — theft burglary, robbery, and physical and sexual assaults.

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### 3.3 General limitations of empirical studies

As noted earlier, the empirical literature on social capital has a range of limitations. In some cases, problems in studies reflect conscious decisions made by researchers to push ahead with the imperfect but best data available at the time. In other cases, problems have arisen as a result of the way the researchers have conceptualised social capital and its linkages. Several studies have been individually criticised in review articles, including by Winter (2000a), Stone (2001) and Durlauf (2002). This section sets out the general thrust of the criticisms.

A key criticism relates to the soundness of variables commonly used as measures and indicators of social capital. Stone (2001) suggests that much social capital research to date is ‘inherently limited as the data were originally gathered for purposes other than analysing social capital and are unlikely to provide conceptually thorough measures of it’. Similarly, Paxton (1999, 90) states:

Previous studies provide little rationale for how their measures of social capital connect to the theoretical definition of social capital... the lack of an obvious link between theory and measurement has, in some cases, led to the use of questionable indicators of social capital. For example, voting should be considered an outcome of social capital rather than a part of social capital itself.

Indeed, Stone (2001) argues that most ‘measures of social capital’ are actually measures of its (presumed) outcomes, not of social capital itself. While noting that the use of outcomes of social capital as proxies may be justifiable in some circumstances<sup>42</sup>, Stone contends that the use of such approaches to date has caused considerable confusion in the literature. Among other things, often the literature has failed to isolate whether social capital truly does cause its presumed outcomes, or whether other factors are responsible. Further, when these outcomes are in themselves desirable, this approach equates social capital with those good outcomes (Sobel 2002), prejudging the issue of whether social capital is beneficial.

Several other limitations in the indicators and techniques used to date to measure social capital have been identified:

- Most studies measure only the quantity of aspects of social capital (interactions, trusting behaviour, attitudes etc), not the quality, but both the quantity and quality are relevant to the efficacy of social capital (UKONS 2001).

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<sup>42</sup> Stone and Hughes (2002, 5) state: ‘Where a strong and demonstrated relationship exists between measures of social capital and various determinants or outcomes, measures of these determinants or outcomes might be able to be used as indicators of social capital. Note that while such measures are often used as indicators in the way described, to date there has been little empirical testing of the actual relationship between social capital and those factors argued to facilitate or flow from it.’

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- Many of the studies use only a single indicator of social capital (or use a composite indicator of only a single facet of the concept), such as a civic cooperation measure or a trust index. This approach fails to adequately reflect the multifaceted nature of the concept (Paxton 1999, Stone 2001).
  - Questions from cross-country surveys may be interpreted differently in different countries (Knack and Keefer 1997). For example, the interpretation of ‘most people’ in the World Values Survey’s trust question (see above) could be either ‘most people I know’ or ‘most people in the general population’. These difficulties may be exacerbated when surveys are translated to different languages.
  - Most measures of social capital are calculated by aggregating the responses of individuals. Some researchers (UKONS 2001) have noted that social capital is generally perceived to be a community characteristic and that it may not be accurately measured by simply summing individual responses.
  - The empirical literature generally fails to recognise that social capital will vary by network type and social scale (Stone 2001). In a similar manner, while the theoretical literature emphasises the importance of distinguishing between bonding, bridging and linking social capital, these distinctions rarely find their way into empirical studies.

Reflecting the prevalence of such problems in the literature, the OECD (2001, 43) has cautioned that:

The difficulties involved in measuring social capital need to be recognised. Sources, functions and outcomes may be confused in the desire to measure. Much of what is relevant to social capital is tacit and relational, defying easy measurement or codification. Individual attitudes (eg. trust) or behaviour (eg. joining organisations or voting) provide proxy measures of social capital, but these measures should not be confused with the underlying concept. Attempts to capture key dimensions of how people interact and relate to each other are hampered by the lack of suitable data sources. This in turn reflects the absence of a sufficiently comprehensive range of questions in survey questionnaires, and the fact that surveys are not designed to assess social capital per se. Hence, sources of data on social capital at the international level are difficult to obtain.

As the indicators of social capital are central inputs into studies of social capital’s effects, these problems also have implications for the robustness of such studies.

In addition, the statistical methods used in various effects studies are of limited explanatory power, as they do not isolate cause from effect or control sufficiently for extraneous factors. Statistical correlations (as used in some of the literature) can only indicate that two series are moving (to some degree) in unison. They can not indicate if the two series are systematically related, or the direction of any causality.

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While regression analyses can control for extraneous influences, some have been criticised for insufficient sophistication. For example:

- Knack and Keefer (1997) criticise Helliwell's (1996) study of productivity growth for controlling only for initial income and not other variables that may have an impact on productivity, such as human capital or the price level of investment goods.
- Knack and Keefer's own work on the relationship between social capital and economic growth has been criticised for similar reasons (see Durlauf 2002).
- The OECD (2000, 92) has noted that, even with the significant number of control variables used in Putnam's work on educational outcomes and social capital in the United States, '...there may well be other unobserved factors correlated with the proxy measures of social capital used and learning outcomes'.

Of course, the problems of isolating cause, effect and extraneous influence are not unique to the social capital literature; they bedevil the analysis of many economic and socioeconomic phenomena. However, the uncertainties are compounded when the indicators of social capital used in the literature themselves have an uncertain relationship to social capital.

### **3.4 Recent research developments**

A number of researchers are attempting to devise more robust and theoretically grounded instruments for measuring social capital. Using detailed surveys to gather data on hypothesised social capital 'dimensions', researchers have undertaken statistical tests of the resultant data sets to determine which approaches and variables 'hang together' and provide consistent and meaningful results. The study of five localities in New South Wales by Onyx and Bullen (described above) represents an early example of such attempts. Recent studies by Narayan and Cassidy (2001) and Stone and Hughes (2002) extend this line of work.

Narayan and Cassidy aimed 'to provide researchers with a set of statistically validated survey questions for measuring social capital in developing communities.' The study, conducted as part of the World Bank's *Social Capital Initiative*, involved the development and testing of a pilot survey in three rural areas and one urban area in Ghana, followed up by a second pilot in an economically depressed urban area in Uganda. The authors identified seven dimensions of social capital, namely: group characteristics (including memberships in informal networks with particular characteristics); generalised norms; togetherness (or community solidarity); everyday sociability; neighbourhood connections; volunteerism; and trust.

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Following refinements and statistical testing, the authors concluded that ‘the hypothesised dimensions of social capital are largely stable and consistent across data sets, and the questions used to measure social capital are demonstrably reliable and valid.’ The study also found that the dimensions were good predictors of various community-level outcomes, such as subjective wellbeing, crime rates and political engagement, although they had lower predictive validity at the household level.

While the authors considered that they had resolved some of the measurement issues surrounding social capital, they recognised that, in a number of respects, ‘additional work in the measurement of social capital is obviously needed’ (Narayan and Cassidy 2001, 91).

The Stone and Hughes study was based on a conceptual framework that ‘distinguishes between social capital within different sorts of networks, which exist at different social scales.’ The study, conducted as part of the Australian Institute of Family Studies’ *Family, Social Capital and Citizenship* program, utilised a national random survey of 1500 Australian households that gathered data on a range of social capital variables as well as other respondent characteristics. The social capital variables included ‘network characteristics’ — essentially norms of trust and reciprocity, and network size, density and diversity — for different networks in three social realms. These realms were described as: the *informal*, which includes relationships with family, friends and workmates; the *generalised*, which encompasses relationships with people in civic groups or people in general; and the *institutional*, which encompasses relationships to institutions and power. The conceptual framework, which has been drawn on by the ABS to help inform its own approach to social capital, is summarised in Box 2.3 in chapter 2.

Stone and Hughes used the data to develop and test various approaches to measuring social capital, or elements of it, within and across these three realms. They also constructed a typology that grouped people according to their similarities when measured against the social capital indicators across the various realms of their lives (box 3.2).

The authors found that a number of their measures of social capital were reliable within each realm. They also found that some core components of social capital — namely norms of trust and reciprocity and network *size* — cut across network boundaries and realms and, thus, potentially validate the use of composite summary measures of these components for some research purposes. Similarly, the authors found statistical support for the validity of their social capital typology, and considered that it too could be of use in some research contexts.

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### Box 3.2 The AIFS social capital typology

Stone and Hughes used a statistical technique called 'cluster analysis' to develop a social capital typology, with people in each cluster having a similar social capital profile. Four clusters were identified.

- *Social capital rich*: Comprising 19 per cent of the respondents to the AIFS survey, people in this group have high levels of connectedness across-the-board — to informal networks, organisations and institutions — as well as high levels of generalised trust and reciprocity.
- *Strong norms, civic connections*: 56 per cent of respondents have high levels of trust and reciprocity across all types of networks, a high level of civic and community group membership, but a relatively small informal network of family, friends, neighbours and workmates.
- *Informal emphasised*: Comprising 18 per cent of respondents, people in this group have small but dense informal networks, with high levels of trust and reciprocity within those networks. But they have few connections with, and low levels of trust of, community groups, institutions and people at the neighbourhood level and beyond.
- *Social capital poor*: 6 per cent of respondents have small informal networks, few connections with the wider community or with institutions, and low levels of trust and reciprocity across-the-board.

Source: Stone and Hughes (2002).

However, they also argued that creating an overall index of social capital did not make statistical (or substantive) sense, stating:

... we have found evidence throughout this paper that measures of norms, networks and network characteristics do not cohere readily to form an overall measure of social capital, but rather that differences exist between these core elements. This raises the question of whether we should think about social capital as a multidimensional concept, or whether we should think about the different dimensions or elements as conceptually distinct. For example, it may be that norms of trust and reciprocity account for some types of outcomes, but that having limited or extensive networks accounts for others. Dense networks in which many members of a network know one another may result in different types of outcomes again (Stone and Hughes 2002, 40).

Stone and Hughes (2002, 3) further observed:

Some common themes are developing and some consensus about measurement is being achieved in more recent social capital research. However, social capital measurement is an emerging field, in which it is important to test and validate numerous approaches to measurement, the refinement of which will happen over time, through testing, re-testing and ongoing development of both conceptual and empirical understandings of social capital.

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Thus, while these studies represent an advance in the conceptualisation and measurement of social capital, both sets of researchers have recognised the need for further research.

Such research is likely to lead to the identification of the most powerful facets of social capital for particular purposes, and those (presumed) facets that in fact are of little empirical relevance.<sup>43</sup> Ideally, it will also provide easier-to-measure indicators of these facets which can, in turn, be used in (robust) ‘effects studies’ and for the analysis of government policies intended to enhance social capital (discussed in chapter 4).

### 3.5 Summing-up

Because social capital as a concept is relatively new, multifaceted and imprecise, measuring social capital and its effects is extremely difficult.

Empirical studies have used a wide range of variables as indicators of social capital. Some studies have relied on a single ‘stand-alone’ indicator; others have used multiple or composite indicators. Indicators of social capital have been devised using survey data, pre-existing ‘proxy’ variables of items thought to be closely related to social capital and, to a lesser extent, experimental data. Differences in the choice of indicators have reflected data availability, the objective of the study, and the way the particular researcher has conceptualised social capital.

Among other things, social capital, to the extent that it can be proxied by measures of ‘trust’, is high in continental Europe and particularly in Scandinavia, middling in some English-speaking countries (including Australia) and low in many developing countries. By some accounts, social capital has declined in some English-speaking countries over recent decades. As well as use in national level and international comparisons, indicators of social capital have been used in local level and contextual studies.

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<sup>43</sup> For example, in an empirical application of the different components and types of social capital identified in the Stone and Hughes (2002) study, Stone, Gray and Hughes (2003) examined whether and how these aspects of social capital affect individuals’ labour market outcomes. Among other things, the researchers found that *the structure* of individuals’ networks, but *not* the trust and reciprocity norms they embody (when other factors were controlled for), is related to the methods people use to find employment. They also found that their measures of individuals’ social capital ‘type’ were strongly related to both job search method and employment status (see section 3.2), pointing to the potential usefulness of the typology approach for helping to explain labour market outcomes at the individual level.

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Many empirical studies have attempted to examine the relationship between social capital and other aspects of the economy and society. Researchers have taken indicators of social capital and compared them, generally using correlations or regression analysis, with other social or economic variables, including in relation to:

- personal income and economic performance;
- governmental performance;
- education and child welfare;
- health;
- crime and violence; and
- equality.

In assessing the effects of social capital on these matters, some researchers have buttressed their studies by drawing on other existing research that does not utilise the concept of social capital directly or explicitly. However, this supporting research still contains findings that researchers have deemed to be relevant for understanding the effects of social capital.

Most of the research supports the view that social capital generally has a range of beneficial effects, finding that indicators of social capital are positively related to governmental efficacy and good social and economic outcomes.

However, the indicators of social capital used in the empirical literature to date have several limitations. These mean that many of the indicators may not, in fact, measure or provide a reliable indication of the level of social capital. In some cases, the problems in studies reflect conscious decisions made by researchers to push ahead with the imperfect but best data available at the time. In other cases, problems have arisen as a result of the way the researchers have conceptualised social capital and its linkages.

Further, establishing the direction and extent of any causal link between social capital indicators and the socioeconomic variables of interest is not straightforward because, among other things, it is plausible that high levels of social and economic wellbeing can lead to higher social capital, rather than (or as well as) the reverse. There can also be difficulties in excluding confounding influences from data used in effects studies. Such problems are not unique to the social capital literature, but the uncertainties inherent in statistical analysis are compounded when the indicators of social capital used in the literature themselves have an uncertain relationship to social capital.

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The upshot is that the empirical literature taken as a whole can only provide ‘suggestive evidence’ that social capital generates the various beneficial outcomes ascribed to it.

Recognising this, a number of social capital researchers are attempting to devise more robust and theoretically grounded instruments for measuring social capital. While some of this work appears promising, further research is desirable both to improve and validate the conceptualisation and measurement of social capital and to gauge its effects.

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## 4 Social capital and policy analysis

While the bulk of early research has attempted to understand and quantify social capital, its sources and its effects, many authors have taken the additional step of drawing conclusions for public policy.

The Saguaro Group — a US think tank of policy makers and academics convened by Robert Putnam — has argued:

It is becoming increasingly clear that social capital has an enormous array of practical benefits to individuals and to communities. What is more, social capital has what economists call ‘positive externalities’. That is, networks of trust and reciprocity not only benefit those within them, but also those outside them. Consequently, when social capital is depleted, people suffer in clear and measurable ways, and there is a ripple effect beyond a scattering of lonely individuals. Shoring up our stocks of social capital, therefore, represents one of the most promising approaches for remedying all sorts of social ills. (Saguaro 2000, 4)

These and other authors have identified an extremely wide range of government policies that they believe could build social capital.

However, some authors take a more cautious view of the role that governments can or should play in relation to social capital. Fukuyama (1999) states:

States do not have many obvious levers for creating many forms of social capital. Social capital is frequently a byproduct of religion, tradition, shared historical experience, and other factors that lie outside the control of any government. Public policy can be aware of already existing forms of social capital — for example, the social networks used to develop information for micro-lending — but it cannot duplicate the effect of religion as a source of shared values. Policymakers also need to be aware that social capital, particularly when associated with groups that have a narrow radius of trust, can produce negative externalities and be detrimental to society.

Further, some strands of the literature recognise the potential for government intervention, particularly by central governments, to ‘crowd out’ or inadvertently damage civil society and to reduce personal and community self-reliance, to the detriment of social capital.

In practice, governments already undertake a number of functions that may support or enhance forms of social capital. The provision of basic systems of property rights and civic order are normally preconditions for the emergence of generalised trust. As well, many existing governmental programs — in areas such as education,

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welfare, family support, community services, sport and the arts, communications and the provision of essential services — often have as one of their underlying goals the development of social capital, even if their objectives are not articulated in such language.

Are these government programs effective at building or at supporting social capital, or do some of them displace it? Could the individual programs, or their mix, be modified to provide greater pay-offs through social capital formation? Are additional measures warranted to build or support social capital?

From a public policy viewpoint, it is also important to ensure that other government programs, regulations and policies do not unnecessarily or unintentionally harm social capital and, in fact, harness and utilise existing stocks where applicable.

In this chapter, the Commission explores whether, and how, social capital considerations could be drawn more explicitly into the public policy process, under the following headings:

- assessing policies to build or support social capital;
- incorporating social capital considerations into other policy assessments; and
- redesigning policies to utilise existing stocks of social capital.

## **4.1 Assessing policies to build or support social capital**

The literature contains numerous suggestions for government actions to build or support social capital. They cover an extremely broad array of matters, including parenting practices, education, urban design, working hours, volunteering and civic participation, welfare provision, competition policy, corporate ethics, public liability, home ownership, the size of government and the conduct of public policy itself.

Different proposals reflect different theories and understandings of social capital and how it is created and sustained (or destroyed). While some of the proposals address what are seen as the broad determinants of social capital, others are intended to influence social capital or its sources and outcomes more directly. Some call for active government programs to create new social capital. Others would entail changes to the way governments deliver the services they provide, and/or the devolution of responsibilities to people and organisations at the local level, with the aim of stimulating latent social capital in communities.

Box 4.1 outlines a selection of the proposals. These and other proposals, and the rationales advanced for them, are set out in detail in appendix A.

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**Box 4.1      Some policy ideas to build or support social capital  
that have been suggested in the literature**

- Public campaigns, and more flexible work arrangements, to encourage greater civic participation; and government support for community groups, events and volunteering.
- Traffic management and urban design changes to create safe spaces for children to play, to encourage neighbourliness, and to facilitate ‘mingling’ between social groups.
- School size, governance and curriculum changes; increases in the availability and scope of extra-curricula activities; and mandating community service for students.
- Welfare system changes; and the devolution of responsibilities from central agencies to local governments, the non-government sector and/or families and individuals.
- Changes to existing government service delivery models to increase opportunities for local level design input and ongoing participation.
- The use of ‘citizens juries’ and ‘deliberative polls’ in policy formulation to encourage greater community participation and trust in government.
- Government subsidies for household and public internet and telecommunications services, to overcome the ‘digital divide’ and increase access to networks and information, particularly for the poor.
- ‘Corporate social responsibility’ initiatives to help build bridging social capital between business and (other elements of) civil society and to increase levels of trust.

## **Rationales for government involvement**

Implicit in many proposals for government action to maintain or build social capital is the view that people and private institutions, when left to their own devices, will not generate sufficient social capital to serve the overall community interest.

Is this the case?

Individuals clearly have some private incentives to ‘invest’ in developing and maintaining social capital. Glaeser (2000) models individuals as investing in attributes — including charisma, contacts, and linguistic and other social skills — that increase the (market and non-market) returns to the individual in his or her dealings with others. Burt (1992) notes that individuals also have an incentive to contribute to the development of denser social networks by plugging ‘structural holes’ in existing networks. This can entail the provision of ‘bridging’ links between members of different groups. There is also a well-developed economic literature that suggests that repeated demonstrations of trustworthy behaviour can provide benefits for individuals or firms in the form of goodwill and reputation effects. Further, building on the initial experimental work of Axelrod (1984), substantial evidence has emerged that cooperative norms and behaviours can exist, evolve and

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come to predominate, particularly in situations of repeated interaction between people, even when narrow self-interest would dictate non-cooperation (Ostrom 2000a).

It should also be recognised that, at least in theory, people or societies could ‘over-invest’ in social capital. This is partly because the expenditure of effort to form social capital precludes the expenditure of that same effort on other matters. For example, beyond some point, additional time spent networking may eat unduly into time spent working. Further, as noted earlier (section 2.5), in some circumstances some forms of social capital can have adverse effects.

Even so, social capital has a number of characteristics that may cause its under-provision within the community if left to private efforts alone. These characteristics — set out below — provide a partial justification for governmental policies/actions to enhance or support social capital.

First, the accumulation and use of social capital often generates *positive externalities*. Among other things, high levels of generalised trust and adherence to pro-social norms reduce transactions costs for all community members. They also facilitate the provision of public goods, and can provide social spin-offs in the forms of reduced crime and welfare dependence, lower health care expenditures, higher taxation receipts and so on.

Second, there may be *complementarities* in investments in social capital. For example, the returns to individuals from becoming a member of a network are likely to be greater if other people also make the effort to join the group, as the number of contacts that group membership provides will be higher. This complementarity in social capital creates the possibility that a society could stabilise around an equilibrium of high social capital, as in Norway, or could be trapped in a situation of low social capital, as in Russia. Some, such as Glaeser (2000, 37), argue that this possibility justifies government action:

The combination of positive externalities and complementarity leads to strong gains from co-ordinating investment. Naturally, this creates the case for government intervention in social capital investment.

Third, the UK Performance and Innovation Unit — a British Government policy think-tank — has mounted what it terms a ‘civic and political argument’ for government intervention to provide social capital. This line of thinking can be understood as an argument about *positive externalities*. The UKPIU (2002, 52) states:

The main civic and political argument is that social capital underpins a healthily functioning democracy, both locally and nationally. This is much more than a question of voting. Citizens who engage with others may help to direct government to better policies, refrain from free-riding, pay taxes, obey laws and pro-social informal customs, and actively seek solutions to collective action problems.

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Beyond these arguments associated with potential ‘market failures’ in the provision of social capital, proposals that the government take action to build or support social capital may reflect the view that existing government activities themselves lead to an underprovision of social capital within society. For example, the compliance costs associated with certain government regulations — such as complex safety directives or taxation requirements — may adversely affect the viability of community events and organisations, thus reducing participation. Also, some government programs may directly stymie or displace community-based activities. One approach to these problems would be to remove the offending regulations and programs. However, where they are deemed to be warranted to meet other objectives, the reduction in social capital that they cause could provide a rationale — on ‘*second best*’ grounds — for other government measures to induce a (compensating) increase in social capital.

*Equity* considerations might also warrant government involvement in the provision of social capital. The UKPIU (2002, 52) cites research indicating that some groups have poorer access to social capital than others, contributing to ‘social exclusion’ (Hall 1999). The distribution of social capital may also hinder social mobility and help to prolong inequity over time as, for example, middle class parents use social capital to pass on privileges to their children (Aldridge 2001). While governments can address inequities in several ways, one may be to influence the level and distribution of social capital within the community.

### **Assessment issues**

While there are thus many reasons why social capital might be underprovided (or poorly distributed) within society, it does not automatically follow that governments should attempt to build or support social capital. Rather, whether such action is warranted depends on an array of factors including:

- the ability of particular government actions to successfully enhance social capital;
- the size of the benefits (or, in some cases perhaps, costs) that would flow from the social capital created or maintained;
- the costs of the government actions, both to the government itself and to the broader community; and
- whether alternative ‘investments’ or actions by government would generate greater net benefits.

In principle, policy proposals advanced to build or support social capital should be assessable using existing ‘generic’ policy assessment processes, such as budgetary program evaluations, project benefit-cost appraisals or regulation impact statements. The positive effects of enhancements in social capital would enter such assessments

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as benefits, and be added to any other benefits that the assessment determines the proposal would bring. If these gross benefits exceed the assessed costs of the proposal, and alternatives could not be identified that would capture these benefits at less cost or that could generate greater net benefits, then the assessment would endorse implementation of the proposal or strategy.

However, there are five features of social capital that create particular difficulties for policy analysts.

First, substantial ambiguity and uncertainty surrounds the social capital concept. As noted in chapter 2, social capital is not defined, conceptualised or interpreted consistently in the literature. Further, while many authors treat social capital as one (multi-dimensional) concept, the recent detailed empirical work by Stone and Hughes (2002) (described in section 3.4) suggests that it may be appropriate to treat its different dimensions as conceptually distinct. There is further uncertainty about the relationship between social capital and the factors thought to be its sources.

These uncertainties make assessing the impacts of a policy on social capital difficult. In the view of one practitioner:

Many people from differing starting points in the debate recognise instinctively that [social capital] is important and potentially valuable. But we have not yet worked out what, if anything, we can do about it as policy-makers. The problem is compounded by evidence that we cannot be definitive about the conditions or circumstances in which we can be sure that a certain type of public policy response will be more or less social capital friendly ... (Stewart-Weekes 2000, 289)

Second, even where there is reasonable certainty about what constitutes an improvement in social capital, multiple and mutually reinforcing policies may be required to bring it about. To take one example, to encourage substantially greater participation in community organisations, as advocated by some social capital proponents, governments may need to introduce new measures (or expand on existing measures) across a range of portfolio areas, including:

- funding media campaigns to encourage people to volunteer or participate in community organisations;
- introducing sufficient flexibility in working hours regulations to allow people sufficient time for participation;
- relaxing public liability laws as they relate to community events and organisations;
- waiving or relaxing various regulatory requirements (and related licenses and compliance procedures) on organisations, their properties and their operations;
- lending publicly-owned facilities (such as schools) for use by community organisations; and
- providing grants or tax exemptions for community groups and events.

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Determining the optimal extent and mix of such changes can be a complex analytical challenge, and would require negotiation and coordination across various government agencies. More generally, the nature of some aspects of social capital formation, such as the building of generalised trust, may require a critical mass of pro-social capital policies, actions or behaviours to be exhibited. Ad hoc policies to instil trust, or trustworthiness, may not produce the desired result, due to the undermining effects of the weight of non-trustworthy behaviour in other arenas of life. These examples suggest that there may be a particular need for a ‘systems’ approach to the design of policies to support or increase social capital, particularly where the aim is to enhance social capital across the whole of society.

A third cause of complexity is that attempts to build social capital may sometimes require localised solutions. The preconditions for the emergence of social capital may vary from area to area (as well as from context to context). The benefits generated by increases in social capital are also likely to vary from area to area. This means that some ‘one-size-fits-all’ approaches to building social capital may be inappropriate. This need not cause major difficulties for policy analysts working in local governments, who are closer to their local community and more able to tailor programs to local conditions. However, it may pose problems for the design of pro-social capital policies at higher levels of government. Such policies will need either to be robust to variations in local conditions or to embody mechanisms that allow for flexibility and discretion when applied in different areas.

Fourth, the fact that some forms of social capital can have perverse effects, at least in certain circumstances, may generate additional difficulties for the analysis of policies to simply ‘build’ social capital. As the UKPIU (2002, 54) notes:

[The evidence] suggests that a simple notion of maximising social capital is not the correct way to think about the issue. For example, a general drive to increase bonding social capital — the internal connectedness of micro communities — might do as much harm as good in the absence of parallel attempts to increase bridging social capital — the connections between communities. Instead, policymakers might be better advised to use a ‘vitamin model’ for thinking about social capital which seeks optimum levels of the different types while also recognising that excessive levels of any one type could be harmful.

The UKPIU cite, as an example of social capital enhancement policies that could have adverse effects, community development and regeneration programs that emphasise self-help and capacity building to the exclusion of links to the wider community or economy. These, it notes, could result in the ongoing exclusion of target communities’ members from networks that could take them into employment. These risks complicate policy analysis and, where they are deemed significant, may necessitate complementary measures (such as enhanced employment support for the affected community). However, these possibilities do not of themselves invalidate pro-social capital policies of the type cited above.

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The fifth feature is that, notwithstanding some recent advances, the measurement of social capital remains problematic. Further, even if social capital could be measured reasonably accurately, converting a particular change in social capital into a benefit or cost estimate, comparable to other benefits and costs, raises further dilemmas. The UKPIU (2002, 53) argues that, if appropriate measures are unavailable, it is not possible to assess the scale and nature of a problem to be addressed, to evaluate the cost-effectiveness of interventions or to identify the most appropriate intervention. This is not entirely correct because time and data constraints mean that policy analysis often proceeds using qualitative assessment. Nevertheless, the current conceptual and measurement quandaries that surround the social capital concept clearly limit the precision attainable in its policy analysis.

### **Some implications**

These five features make it difficult to assess whether current policies or new policy proposals can contribute positively to the building of social capital, or even to assess the extent to which they can support social capital generated by the community. In turn, they hamper assessments of the appropriate mix of such policies.

To improve policy design and coherence, further research may be useful to deepen understanding of the sources of social capital and how they operate, to better conceptualise social capital itself, and to improve on current measures and measurement methodologies.

The current lack of certainty, together with the risks that some government actions in this area could actually erode social capital, suggest that there may be merit in the short term in tending towards small-scale policy experimentation. This would provide experience and data on different policies aimed at supporting or enhancing social capital. Similarly, there would be merit in regular policy evaluations to assess the effects of such policies and to suggest appropriate design adjustments.

## **4.2 Incorporating social capital considerations into other policy assessments**

Social capital considerations can arise in relation to a range of government policies and programs that are not specifically focussed on building social capital. For example, public liability laws are intended to generate incentives for organisations to operate safely and to provide a mechanism for compensating people who suffer harm. Yet as recent events in Australia have shown, they can also affect the viability of community events and organisations and, thus, the opportunities for developing social capital. As another example, the choice of whether blood for transfusion is supplied

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**Box 4.2 Government policies with possible side-effects on social capital**

- Certain labour market policies — such as minimum wage requirements and unfair dismissal laws — are intended to address equity concerns by putting a floor under the incomes and conditions of the working poor. However, were such policies to price unemployed people out of jobs, those excluded would be denied not only higher material living standards but also the significant opportunities to develop personal skills and self-esteem and to access to networks that employment brings.
- Welfare payments are intended to meet equity objectives, and some commentators argue that they also promote social trust and community cohesion. Others argue that aspects of the welfare system reduce incentives to work, create dependency and displace private charity, thus harming social capital, both in general and in indigenous communities.
- The manner in which government service providers interact with their clients, especially disadvantaged people, can affect people's perceptions of their social belonging. Specifically, the existence and content of service quality charters, the extent to which services are 'individualised' and draw on local input in their design and delivery, the extent and nature of bureaucratic processes and appeals mechanisms, and even the internal layout of government welfare offices and 'shopfronts' can add to or detract from feelings of inclusiveness and social trust.
- Licensing and registration requirements, planning requirements and a host of other regulations are intended to meet a range of environmental, health, safety, probity, and access and equity goals. Cumulatively, however, they may also affect the viability of some community events and organisations, and thus social capital.
- Public funding for major sporting events and festivals is often predicated on attracting tourists and boosting local employment. Whatever the merits of these arguments, another potential benefit of staging such events is that they may enhance community spirit and civic participation — the Sydney Olympics being a prominent example.
- School amalgamation policies are often intended to save public funds and/or enhance educational opportunities for children. However, the closure of a local school can diminish the sense of community that develops around such schools, which is not so easily replicated in larger schools where parents and children are drawn from a larger 'catchment'.
- Governmental support for Neighbourhood Watch, Landcare groups and volunteer bushfire brigades is intended primarily to assist in addressing targeted community concerns — specifically crime prevention, environmental protection and fire control. However, these initiatives may also help develop networks and add a sense of community and mutual trust among participants.
- First home-owner grants assist some people to afford 'the Australian dream' and affect demand in the building industry. They may also add to social capital if home-owners feel greater ties to, and thus become more involved in, their local community.
- Banning fireworks provides benefits on safety and animal welfare grounds. But it may also reduce 'street parties' and neighbourly interaction on cracker nights.

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through a voluntary ‘donation-only’ system, a commercial system or a mixed system clearly can directly affect the quantity, quality, cost and timeliness of blood supply. But the choice of system may also have implications for social capital insofar as retaining blood supply as a donation-only service may avoid the product’s ‘commodification’, thereby keeping it as an outlet for the development and exercise of altruism (Titmus 1971). Box 4.2 contains further examples.

As the examples show, such policy side-effects can arise in a range of portfolio areas. They can also vary in significance: some are likely to be relatively trivial, at least when considered on their own; others will be more important.

Some policies, such as measures that generate additional employment or home-ownership, may have positive side-effects for social capital formation. The way in which government programs themselves are conducted can also have positive effects on social capital. For example, programs that encourage input and participation by individuals and groups at the local community level, as part of the program, may generate social capital among the participants (see box 4.3).

**Box 4.3 Program design and social capital: some examples**

- In Victoria, maternal and child health agencies have broadened their activities from infant-focussed health services to address family wellbeing. Among other things, parenting education is being provided for first-time parents in group meetings run over several weeks. The services are universal rather than being targeted at an ‘at risk’ group, and provide an opportunity for new parents to meet each other and create social networks. Scott (2000) reports that, in many cases, the parents involved have continued to meet informally for a number of years. The relationships and networks formed as a result can provide ongoing social contact and support for parents and children.
- In addressing resource management issues in rural communities in Wisconsin, the State Department of Natural Resources (DNR) increasingly moved from a ‘technical’ approach to one of ‘community orientation’ during the 1990s. This shift entailed greater local input and two-way information flows. While DNR staff continued to provide ‘expert’ knowledge and to ‘frame’ issues, they also mediated conflicts, supported community initiatives and facilitated arrangements that suited stakeholders. According to Cavaye (1999), ‘DNR created a vehicle for local people to act on existing concerns, built relationships, and shifted communication from a “vicious” to a “virtuous” cycle of contact.’ The shift thus was associated with an increase in the communities’ social capital (as measured by variables including the number and activity levels of community organisations, attitudes, and changes in the level of personal interaction and contacts).

Sources: Scott (2000); Cavaye (1999).

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On the other hand, as noted earlier, there is also significant scope for government regulations and programs to weaken social capital. Whatever their other merits may be, policies that have the effect of limiting employment, placing onerous restrictions or obligations on community groups, and displacing or reducing community-based activities and solutions to problems are examples of government measures that could undermine social capital.

Generic policy assessment frameworks should in principle be able to accommodate the side-effects on social capital of other policies proposals. These side-effects would enter the assessment as benefits and costs of the policy under consideration. Further, the possibility of minimising the adverse side-effects, or maximising any positive side-effects, where they are substantial, would be examined when assessing options for policy design.

The Commission adopted this approach, for example, in its 1999 inquiry into *Australia's Gambling Industries*. Among other things, the Commission sought evidence on the (side-)effects of the proliferation of gambling on norms and ethics, the level and pattern of social interaction, and volunteering, as part of its assessment of benefits and costs (box 4.4).

However, some of the problems that arise in the analysis of policies to build social capital (section 4.1) also arise in the analysis of the side-effects on social capital of other policies. For example, in the case of its gambling study, the Commission was unable to assign a quantitative estimate to the costs and benefits associated with changes to some of the social capital variables it identified, or even to gain much of a qualitative feel for their magnitude. Although this limitation had little import for the broad thrust of the Commission's policy deliberations (box 4.4), it again highlights the difficulties entailed in incorporating social capital considerations into policy analysis.

Another potential problem is that some policy analysts may be unaware that the issues with which they are dealing have ramifications for social capital. Although they may not be the main considerations, social capital matters could potentially arise in the context of a wide range of policies, including tax and welfare system design, the provision of essential services such as banking and telecommunications, border control strategies (including both immigration and quarantine), industrial relations, education, broadcasting, and housing and land leasehold arrangements. Yet it is not clear that all policy analysts who regularly deal with such issues would be aware of, or well equipped to analyse, the social capital ramifications of the policies.

Some authors have advocated the development of social capital impact assessment frameworks, which could be used as a stand-alone procedure or be incorporated into existing policy assessment procedures. As with environmental impact assessments,

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**Box 4.4 Social capital considerations in policy analysis:  
the Commission's Gambling report**

Although not a central focus, the Commission's 1999 inquiry into *Australia's Gambling Industries* considered some effects of gambling on various matters related to social capital. Among other things, the Commission noted that the work ethic, family values, altruism, volunteerism and trust might all be affected by the proliferation of gambling. It further stated that 'there may be a case from the viewpoint of economics (broadly understood) for governments to influence people's norms and ethics, or at least to remove or curtail influences that distort them, to avoid bad social outcomes.' (PC 1999b, 10.21)

During the inquiry, the Commission heard anecdotal evidence that gambling 'is undermining traditional arrangements for pooling funds within some ethnic communities, which is creating tensions and potentially leading to a breakdown in trust and community relations', and that gambling 'had displaced some community activities which could enhance...social connectedness' (PC 1999b, 10.22). The Commission also reported evidence that, in contrast to the role of traditional forms of gambling in building community in indigenous communities, gambling in a commercial setting has the potential to weaken 'the web of reciprocal social responsibilities' (PC 1999b, E.4).

However, the Commission was unable to gauge the magnitude of the social costs of these types of gambling impacts. It noted that 'there is little agreement as to which norms or ethics are beneficial and which are not, and how beneficial or deleterious they might be'. It further observed:

While several participants asserted that gambling is having deleterious effects on norms, ethics and preferences, the Commission received little specific evidence on, for example, whether gambling had reduced the level of volunteerism in Australia, or how it has affected community norms. Further, the Commission is unaware of any robust study that looks at the effects of gambling on norms, ethics or social cohesion. This is not entirely surprising, as such concepts are quite nebulous and intangible, and attributing changes in them to one factor among many possible causes would be hazardous. This is not to say that these impacts are not real or do not matter, just that they are difficult to measure. (PC 1999b, 10.22)

The Commission's inability to gauge the magnitude of the social costs associated with gambling's effects on norms and ethics had little impact on the broad thrust of its subsequent policy deliberations. This is because the Commission concluded from its overall impact analysis that gambling generated both high private benefits and high social costs, the latter associated mainly with 'problem gambling'. Accordingly, its subsequent analyses focussed on ways — primarily consumer protection measures — to reduce the social costs while retaining the private benefits. The logic underlying this approach is not dependent on just how high the social costs might be.

However, were it possible to gauge the social costs associated with any changes in norms and ethics, this may have implications for gambling policy at a more detailed level. Specifically, were such costs found to be substantial, then there might be grounds for government actions to curb them: for example, governments might restrict gambling advertising and regulate the location and appearance of gambling venues to reduce the visibility, prestige and perceived acceptability of gambling. In practice, a number of such restrictions have actually been implemented by Australian jurisdictions, but largely on harm minimisation grounds, rather than explicit concern to reduce any adverse impacts of gambling on social norms.

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the aim would be to ensure that relevant social capital considerations were taken into account as far as practicable in policy analysis and design. Cox and Caldwell (2000) have suggested a rudimentary checklist of ‘initial questions’ to assist policy-makers (box 4.5). More sophisticated assessment procedures could be developed over time to reflect developments in methodologies and experience in policy settings.

**Box 4.5 Social capital impacts: a proposed checklist for policy analysts**

- Does the policy increase people’s skills to engage in social activities with people they do not know — their sociability?
- Does the policy target some groups at the expense of others, or create feelings of scapegoating or exclusion?
- Does the proposed form of service delivery allow the building of informal relationships and trust with all stakeholders?
- Does the project help extend networks, confidence and optimism among participants?
- Do participants increase their capacity to deal with conflict and diversity?
- Does the program evaluation include the social as well as financial and individual aspects of outputs and outcomes?
- Does the auspice [the body or mechanism delivering the program] itself affect the way people see the program?
- What messages does the program offer to people about their own values and roles?
- What impact does the program have on attitudes to formal institutions of governance?

*Source:* Cox and Caldwell (2000, 70).

### **4.3 Redesigning policies to harness existing stocks of social capital**

As well as measures to build or support social capital, another consideration is that the presence of significant social capital may broaden the range of policy options open to the government. For example, in places where neighbours interact frequently and volunteers provide services such as ‘meals on wheels’, home based care for the elderly can be a more desirable and practical option relative to nursing home care. As another example, where social capital is high, disaster relief operations can be enhanced by governments encouraging and drawing on community spirit and norms of reciprocity. For instance, following the recent bushfires in Canberra, many people voluntarily offered emergency shelter in their homes for fire victims and donated food, clothing and other items. (The Commission’s (2002a) study on foot and mouth disease outbreaks found that how the disaster relief and control programs themselves are undertaken can also affect the level of social capital in communities). Box 4.6 contains additional examples.

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**Box 4.6 Selected policies which use existing stocks of social capital**

- Where there are ethnic communities within particular societies, the deployment of police of the same ethnicity may not only facilitate greater trust of the police force but also improve policing efficiency by allowing officers to obtain information more readily, through existing community networks.
- In societies with a strong norm of law abidingness and trustworthy behaviour, governments may be able to reduce law enforcement expenditures.
- For services such as bushfire fighting for which people's desire to volunteer to help their community is high, it may be more cost-effective (and, indeed, better for social capital formation) for the government to help support voluntary corps instead of providing the service itself.
- In societies in which social norms encourage the wealthy to engage in substantial philanthropy, governments may be able to rely more heavily on private benevolence, perhaps reinforced by tax breaks or incentives for charitable work and philanthropy, to achieve a given equity objective.
- Where regulatory enforcement agencies have limited resources, agencies might generate greater compliance with regulations by building bridging links with local business associations and capitalising on the desire of most business people to 'do the right thing'. This approach was adopted with some success by Tea Tree Gully Council's food inspectors in the early 1990s (ORR 1995, 111).

Such considerations should be part and parcel of normal policy assessment procedures. Specifically, in devising options to meet a particular governmental objective, a policy analyst should examine possible non-governmental solutions, or governmental solutions that utilise existing community structures and resources or stimulate latent social capital within a community.

Such thinking appears to have been evident in the design of recent government policies in the areas of employment services, nursing homes and childcare. In these cases, the Government has attempted to harness the trust and community-level focus of non-government not-for-profit organisations, to deliver services in parallel with the services delivered by government agencies and businesses.

That said, greater awareness of the way in which social capital operates may enhance the manner in which such analyses are carried out. Such assessments also need to consider the potential for policies that seek to harness existing sources of social capital to undermine those sources, as might occur if, for example, volunteers were to come to feel that governments were effectively exploiting their benevolence simply to save money. And of course, assessments would need to consider any other positive or adverse consequences that using civil society or other elements of social capital to deliver government services might entail.

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## 4.4 Summing-up

Social capital has several characteristics that may cause it to be underprovided, or maldistributed, if left to private efforts alone.

Governments in developed nations already undertake a number of functions that may support or enhance forms of social capital. The provision of basic systems of property rights and civic order are normally preconditions for the emergence of social trust. As well, often existing governmental programs have as one of their underlying goals the development of forms of social capital, even if their objectives are not articulated in such language.

Several authors have advanced a range of further government policies that they believe could build or support social capital. Some proposals, such as enhanced funding for education, are intended to address the broad determinants of the level of social capital in a society. Others would seek to influence social capital and its sources and outcomes more directly, through active government policies to create new social capital, or through changes to the way governments operate to stimulate latent social capital.

In principle, such proposals can be assessed using generic policy assessment frameworks.

At present though, it can be difficult for policy analysts to know the extent to which a particular policy may provide beneficial increases in social capital. This reflects the conceptual ambiguities and measurement difficulties that surround the concept, and the fact that, in some instances, social capital can have perverse effects. Even where there is reasonable certainty about what constitutes a beneficial increase in social capital, multiple and mutually reinforcing policies may be required to bring it about — complications which could test the competence and coordination of government, or which may have other impacts that would need to be considered. The need for localised solutions in some cases can also complicate policy analysis.

This suggests that further research may be warranted to deepen understanding of the sources of social capital and how they operate, to better conceptualise social capital itself, and to improve on current measures and measurement methodologies. In the short term, there may be merit in small-scale policy experimentation to gather experience and data on different policies aimed at supporting and enhancing social capital.

That said, some strands of the literature emphasise the potential for government intervention across a range of fields, particularly by central governments, to ‘crowd out’ or inadvertently damage civil society and to reduce personal and community self-reliance, to the detriment of social capital.

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This suggests that there would be benefits in integrating social capital considerations into mainstream policy analysis. This would help ensure that government policies, programs and regulations do not unnecessarily or unintentionally erode social capital, and that any beneficial side-effects on social capital are taken into account. It could also highlight opportunities to stimulate latent social capital through policy design, and to harness existing social capital where appropriate.

Whereas devising policies to create new social capital generally is problematic, governments should at least consider the scope for modifying policies that damage social capital, and ways of harnessing existing stocks of social capital to deliver programs more effectively.

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# APPENDIXES

**Some policy ideas aimed at enhancing  
social capital**

**References**

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## A Some policy ideas aimed at enhancing social capital

A range of authors has identified government actions that they believe could enhance social capital formation. For example, in the United States, the Saguaro Group of academics and policy makers met together over three years to examine practical ways of rebuilding social capital, and developed a list of 38 recommendations. While some are recommendations for employers, families or individuals, many are directed at government. In the United Kingdom, the Government's Performance and Innovation Unit (UKPIU) has released a discussion paper on social capital that collates various policy examples and suggestions. The World Bank's social capital website offers further suggestions and illustrations, and numerous other government bodies and independent authors have also advanced ideas or proposals.

The actions that governments could take to build social capital cover a wide range of areas, reflecting the extremely diffuse nature of the sources of social capital (see chapter 2).

There are differences in the policies suggested by different authors. These partly reflect different conceptualisations of social capital, and different theories and understandings of how it is formed. Another cause of difference is that some authors have directed their proposals towards particular countries, situations or needs. For example, many of the proposals developed by World Bank researchers have particular application to poverty alleviation in third world countries, and some of the Saguaro proposals — such as reforming political campaign financing — are relevant particularly to the United States.

The conceptual basis and evidence for implementing many of the identified policies is not yet established. In some cases, the mechanism by which the proposed policy would purportedly enhance social capital appears speculative, vague or tenuous, or at least is yet to be confirmed by rigorous analysis. In other cases, while the particular proposal may indeed enhance social capital, at least directly, that alone would not be sufficient to justify its implementation. Rather, the policy's beneficial effect in terms of social capital formation would need to be considered along with the other benefits and costs the proposal might entail. For example, one of the proposals is to mandate 'flexi-time' arrangements and to grant workers an

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entitlement to ‘social leave’. Obviously, a government considering this proposal would need to take into account its possible adverse effects on business costs and employment (and thereby indirectly on social capital) as well as any direct, beneficial effects it might have on social capital.

In this appendix, the Commission sets out *a selection* of the policy suggestions. The appendix restricts itself to surveying, rather than critiquing, the suggestions — thus, the Commission does not necessarily agree with or endorse the suggestions that follow. The aim is to illustrate the breadth and nature of the policies that have been advocated, or identified as generating benefits, under the social capital ‘banner’, and to provide an indication of the rationales advanced for them. How such proposals might be incorporated into public policy analysis is discussed in chapter 4.

## **A.1 Specific policy ideas**

### **Family structures and parenting practices**

The OECD (2001, 45–46) has identified families as ‘primary building blocks’ for social capital:

Families create norms and social ties, and provide a social network that benefits its members — especially in the context of extended families in ‘familial societies’ (see Coleman, 1990 and Bourdieu, 1985, 1979). Relations within the family based on reciprocity and the ability to meet the emotional and physical needs of children can also foster the development of trust and co-operative behaviour outside the immediate family circle. The material and emotional support shared freely between family members can generate an implicit willingness and expectation to reciprocate such support within and outside the family. The family is also a primary source of learning, as well as a potential stimulator of success in formal education. Given that education has potentially strong effects in increasing social capital, the family’s role in education adds an indirect positive influence on social capital. ... However, strong family ties (bonding) may on occasion inhibit wider ‘bridging’ relationships.

The OECD (2001, 46) cites evidence that suggests that family structures have implications for child development and social capital formation. Factors such as the number of parents per household, parent-child ratios, the marital status of the parents, divorce, and the frequency with which families move residency, have all been found to bear on children’s development of social capital.

While the OECD notes that these effects may be partially or entirely offset by other factors, their implications for social capital formation might add weight to arguments for policies to help keep families intact, or to focus on particular family types when designing remedial policies. For example, while the OECD (2001, 68)

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emphasises that research on social capital does not yet provide definitive support for any particular government program, it suggests) that policy options that could be explored to enhance social capital include the provision of fiscal support, flexibility in working hours, and arrangements to encourage or facilitate more parental involvement in the lives of children.

Similarly, the UKPIU refers to a range of evidence that suggests that the parenting practices and the social capital of parents themselves have important ramifications for the development of children's capacity to form their own social capital. Among other things, they can affect the child's capacity to form trusting social relationships, as well as being determinants of children's educational attainment, delinquency and later life chances — which are themselves determinants of social capital formation and use in later life.

The UKPIU (2002, 60) argues that this evidence supports the case for a range of interventions, including.

- assisting parents from disadvantaged backgrounds to take part in parent-to-parent and parent-to-school interactions;
- offering guidance, counselling and support to parents in parenting skills; and
- in-school education in the psychology of parenting, relationships and child development to enhance students' parenting skills for later life.

## **Education**

According to Fukuyama, education is the area where governments probably have the greatest direct ability to generate social capital: 'Educational institutions do not simply transmit human capital, they also pass on social capital in the form of social rules and norms.'

Billante and Saunders (2002), who consider it plausible that individual 'civility' is a prerequisite for the emergence and sustenance of social capital, state that 'schools, for example, would have a pivotal role in any policy initiative aimed at strengthening civility, for schooling plays a crucial role in the socialisation of each new generation.'<sup>1</sup> Hughes, Bellamy and Black (2000) advocate reforms to curriculums, extra-curricular activities, teaching/marking techniques and school governance processes to instil greater levels of social trust into young hearts and

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<sup>1</sup> Billante and Saunders (2002, 30) also note that churches, universities and business leaders have also been seen as traditional carriers of public morality, and that 'police and other official guardians of the law would have a key role in any programme to renew public civility'.

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minds. After noting that trust is strongly related to personal values and attitudes such as altruism and the desire to understand others, they state:

Values education should include education that will develop skills in anticipating the needs and feelings of others, and patterns of behaviour that take these needs and feelings into account. It would involve learning about culture and people in such a way as to enhance curiosity and develop appreciation of diversity. (Hughes, Bellamy and Black 2000, 245–246)

The Saguaro Group (2000) advocates ‘civics’ education, including the teaching of higher level communication skills, not only in schools but also in the workplace and for youth that have dropped out of school. Its other education-related proposals include:

- increasing the number and scope of extra-curricula activities available for student participation;
- mandating minimum levels of community service for school students; and
- smaller class and schools sizes to *inter alia* build greater trust and reciprocity between students and to encourage local community involvement.

At a broader level, the OECD (2001, 46) notes that institutions of higher education, adult learning and professional associations can foster networks crossing different sectors of learning, enterprise and voluntary initiative. Latham (2000, 216) states that ‘Adult education, learning circles, public libraries and third-age universities are places where people can learn and practise the habits of social trust. They need to be positioned at the centre of civic life’.

## **Community participation and volunteering**

Various measures have been advanced to facilitate people’s participation in social and communal activities, the aim being to enrich networks and foster social trust.

- The Saguaro Group (2000) recommends several government measures to allow community groups to form and flourish. These include the provision of finances and resources (such as the use of school buildings for conducting meetings) to establish and support organisations, public campaigns to encourage participation in community activities and cultural activities ‘from group dancing to songfests to rap festivals’, and measures to encourage bridging social capital between already existing groups.
- Social capital considerations may also add to the case for reforms to public liability laws and insurance arrangements, and regulatory requirements, to ensure that community activities and events can proceed (chapter 4).

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- Some commentators have advocated shorter and/or more flexible working hours. For example, the Saguaro Group (2000) has called for the mandatory provision of ‘flex time’ and (paid or unpaid) ‘social leave’ to facilitate employees’ participation in social activities. Cox (1995) has suggested penalising workers who work excessive hours, arguing that people ‘need time to take part in social and communal activities’ as well as family and paid jobs.

The UKPIU (2002, 63) reports that early experiences in volunteering and associational activity appear to be highly predictive of community engagement in later life, with involvement with associations with more diverse members stimulating higher levels of trust and engagement than involvement with homogenous groups. This suggests that there may be a role for policies focussed on encouraging young people to gain some experience of volunteering involving working alongside people of different social and ethnic backgrounds. The UKPIU argues that these could target ‘those young people who are unlikely to go to university, thus seeking to replicate some of the bridging social capital benefits that higher education appears to bring’.

Various existing schemes or proposals to support volunteering have been identified. In Australia, programs such as the Youth Ambassadors program and Australian Volunteers Abroad already provide opportunities for volunteering overseas. Some authors suggest that far more wide-ranging programs might be justified on social capital grounds. These might include away-from-home volunteer service programs or a subsidised ‘experience year’ for young people. (UKPIU 2002, 63)

## **Urban design and housing**

Several authors have advocated urban design strategies to enhance social capital, essentially to enhance the ability of the inhabitants to mingle.

- According to Jacobs (1961), to enhance social capital, city design should ‘attract mixed activities that will generate active cross use of land; cut the length of blocks; mingle buildings of varying size, type and condition; and encourage dense concentrations of people’.
- The Saguaro Group (2000) as noted that policies that reduce urban sprawl would encourage people to live more closely together, thus creating more casual interactions and freeing up leisure time by reducing commuting.
- Cox (1995) advocates the provision of open ‘civic spaces’, including parks and reserves, where groups and individuals can meet.

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- The OECD (2001, 68) notes that, in Pistoia, Italy, the municipal council provides children's meeting places, which provide 'enrichment activities' for family members and also serve as community meeting points for adults.
  - The UKPIU (2002, 54) notes that public housing and planning policies that fail to tackle concentrations of deprivation may unintentionally create inward-looking enclaves.
  - The UKPIU also notes that anti-traffic measures such as *Home Zones* — which lower speeds and restrict vehicular access to residential streets by non-residents — can create spaces for children to play together and encourage neighbourliness.

Further, Winter (2000a, 10-11) cites studies indicating that high levels of home-ownership may enhance social capital formation. This is because home-owners are generally less mobile and feel a greater sense of belonging to their local community and, thus, are more likely to invest in joining and developing networks and engaging in community activities.

### **Other policy ideas**

Other government actions that have been identified as potentially helping to maintain or enhance social capital include:

- subsidising the value of household and public internet and telecommunications services, to connect people to local neighbourhoods and to provide access to informal learning opportunities particularly for the disadvantaged (see OECD 2001, 69);
- 'corporate social responsibility' initiatives to help build bridging social capital between business and civil society and to increase levels of trust (UKPIU 2002, 58);
- maintenance of community services such as free libraries, galleries, museums, sporting grounds and historic sights, and retention of sports as communal rather than commercial activities (Cox 1995); and
- the granting of citizen's participation rights, including the use of 'citizens juries' and 'deliberative polls', in policy formulation to encourage greater community participation and trust in government (UKPIU 2002, 73).

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## A.2 The general role of government

As well as suggesting particular policies governments might pursue to promote social capital, some authors have commented about the overall role that government plays, or should play, in supporting social capital. Most authors agree that governments need to enforce respect of property rights and the rule of law, to enable the emergence of social capital. There is also significant agreement that governments should operate in a fair, transparent, accountable and trustworthy manner when undertaking whatever functions it elects take on in.

But beyond these basic points, views differ sharply on whether additional government actions are likely to enhance social capital. Some (for example, Norton 1998) see a need for governments to withdraw from certain arenas to give the community more ‘room to breath’. Other authors (for example, Cox 1995) consider that government could play an important role in creating social capital directly, or in fostering an environment in which it can grow. Some authors (for example, Giddens 1998; Latham 2000) embrace elements of both these perspectives while arguing that social capital considerations call for a significant recasting of the way that public policy is conceived, and of the role of government within it.

### Reducing/devolving government functions

Several authors have argued that governments, their bureaucracies and associated rules can ‘crowd out’ civic participation and undermine pro-social norms, and/or that central governments should cede more responsibility for the provision of services to either local governments or the non-government sector.

- Fukuyama (1999) argues that ‘states can have a serious negative impact on social capital when they start to undertake activities that are better left to the private sector or to civil society’.
- Ostrom (2000) reports that experimental and field evidence has accumulated showing that ‘externally imposed rules tend to crowd out endogenous cooperative behaviour’.
- According to Norton (1998), ‘As government has stepped in to provide welfare benefits, there has been that much less need for private provision of welfare, whether this be through family, networks or friends, or formally organised charitable bodies. The incentive to invest in these social relationships declines, and so social capital is lost’.
- The Saguaro Group (2000) argues that ‘small scale neighbourhood councils with real decision making power’ would boost social capital by facilitating greater community participation and being more responsive to community needs.

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In Britain, the UKPIU reports that some local authorities are considering transferring public assets such as community centres to ‘community trusts’, over which neighbourhoods would have greater control (and possibly ownership rights). The UKPIU (2002, 64) states:

Given appropriate governance arrangements and safeguards, community trusts of this type could be an important site of local civic engagement which contributed not only to the development of bonding social capital within the community but helped to provide bridging social capital beyond it.

Similarly, Latham (2000), citing the success of pilot programs in South-West Sydney, argues that the management and control of public housing needs to pass from government departments to self-governing associations, to foster mutuality as well as neighbourhood pride.

### **Reasserting/increasing government functions**

While some authors have thus proposed that governments withdraw from some functions in order to enhance social capital, some have also argued that governments can be a force of support for social capital in some respects. According to the OECD (2001, 47):

Public governance based on commitment to public welfare, accountability and transparency provides a basis for trust and social inclusion, which can in turn strengthen social capital. The political, institutional and legal conditions prevailing in a country can underpin networks and norms for social co-operation. These two categories can complement and reinforce each other in promoting well-being. Hence, social capital not only produces better public governance and more effective political institutions, but the latter can complement rather than replace community-based networks and reinforce trust.

Petrie (2002, 8–9) states:

It is also fundamentally important that governments provide an effective enabling environment for social and economic exchanges, for the establishment of family relations, and for the functioning of civil society, so as to facilitate decentralized interactions and the emergence of social norms in these spheres of activity. Government also plays a pervasive role in disseminating information designed to influence individuals’ perceptions and therefore their decisions, and over time, to influence social norms. An example is the providing of information on the health hazards of smoking, or on road safety.

Cox (1995) goes further to advocate a retreat from privatisation, and an ‘increase in the functions and visibility of government’, to enhance social cohesion. She considers among other things that privatising public utilities can alter the way people see themselves and others — that is, as ‘consumers’ rather than ‘citizens’ —

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which she suggests can affect the propensity of people to trust others and to support or engage in community-enhancing projects. Cox also advocates a retreat from contracting-out, welfare targeting, competition policy and some other policies that she associates with the label 'economic rationalism'. This position is partly underpinned by a critical perception of the way markets work. As Winter (2000b, 3) explains:

The 'too much market' explanation [for ebbing civic spirit] ... is that an overreliance on market delivery and competition orients individuals to a consumerist, 'what's in it for me' mentality. Market logic, driven by the ethic of self-interest, is said to undermine trust, cooperation and mutuality. Market relations are impersonal, rational, temporary and instrumental. Community ties are intimate, reciprocal and sympathetic.

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