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Mind the gap! Social capital, East and West ☆

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Social capital in Central and Eastern Europe lags behind that in Western European countries. We analyze the determinants of individual stock of social capital – measured by civic participation and access to social networks – and find that this gap persists when we account for individual characteristics and endowments of respondents. However, the gap disappears completely after we include aggregate measures of economic development and quality of institutions. Informal institutions such as the prevalence of corruption in post-communist countries appear particularly important. With the enlargement of the European Union, the gap in social capital should gradually disappear as the new member states catch up (economically and institutionally) with the old ones. *Journal of Comparative Economics* **36** (2) (2008) 264–286. Department of Economics and Finance, and Centre for Economic Development and Institutions (CEDI), Brunel University, UK; CEPR, London, UK; WDI, University of Michigan, USA; Faculty of Social and Behavioural Sciences, Faculty of Economics and Econometrics, Amsterdam Institute for Advanced Labour Studies, and Tinbergen Institute, University of Amsterdam, The Netherlands.

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1. Introduction

Over the last decade, the interest in studying social capital has grown enormously among sociologists, political scientists and economists alike. While social capital is hardly a new concept, it has been greatly popularized by the seminal work of Robert Putnam, 1993. In his twenty-year long research on the quality of local governments in Italy, Putnam identified differences in *civic participation* (which he proxied, most notably, by membership in voluntary organizations) as the source of vast disparities in institutional quality and, in turn, economic performance between the North and South of Italy. A plethora of research has followed and social capital (which, as a general term, encompasses Putnam's civic participation) was found to have important real-life repercussions, in particular for economic, social and political development of societies. Macroeconomic studies (Knack and Keefer, 1997; Whiteley, 2000 and Beugelsdijk and van Schaik, 2005) have found that, in cross-country perspective, higher density of trust and/or active membership in organizations is associated with higher growth. Offering an historical perspective on the issue, Greif (1994) argues that the cultural underpinnings of social interactions in medieval societies played a crucial role in reducing free riding and opportunistic behavior. These empirical findings cement Coleman's (1988) assertion that social capital, just like other forms of capital, is productive and facilitates the attainment of goals that otherwise would not be possible. Accordingly, high stock of social capital increases individuals' ability and willingness to cooperate, improves monitoring and enforcement of contracts, and reduces free-riding and information asymmetry. Social capital therefore lowers transaction costs, fosters innovation and dissemination of technology and thus leads to better economic outcomes.

Despite the increasing recognition of the importance of social capital for economic outcomes, our understanding of factors that determine the stock of social capital – at the individual or aggregate levels – is still very limited. This is a major shortcoming, because "the dearth of research on determinants of social capital has held back its use as a policy tool in economic and social development" (Rupasingha et al., 2006, p. 84; see also Glaeser, 2001). The existing literature is concerned largely with *measuring* the stock of social capital (usually at the aggregate, national level) and its change over time and with investigating its impact on a particular variable of interest (typically economic and/or institutional development of countries). Little attention is given to analyzing the factors that *determine* the individual stock of social capital and/or to explaining the sources of cross-sectional differences across countries.[2]

This paper therefore constitutes one of the few attempts to bridge the gap between theory and empirics. Its contribution is threefold. First, we introduce a new and previously unavailable comparative dataset, based on multiple Eurobarometer surveys featuring a number of alternative measures of social capital for a sample of 28 European countries – including the old member countries of the European Union and the new member countries. Second, we take the analysis of the determinants of individual stock of social capital to another level by considering individual and aggregate (country specific) factors alike. By using large multi-country data sets of individual respondents, our study permits the simultaneous identification of individual-level and societal-level determinants of social capital. Finally, by focusing on social capital in the enlarged EU, we aim to shed light on the existing gap in the stock of social capital between the developed Western countries and the former communist countries of Central and Eastern Europe. In particular, we investigate whether and why cross-sectional differences in social capital exist in Europe. In doing so, our analysis seeks to determine whether the East–West gap in social capital is due to different individual endowments such as education levels or occupational structure or country-specific economic and institutional characteristics.

As the data we are using were collected for the European Commission, our analysis is necessarily constrained to include only the old and new member countries of the EU. We construct measures of social capital applicable to both groups of countries and analyze them in a unified framework. We then discuss our findings specifically in the context of the enlargement process. Though there has been some research on social capital in post-communist countries[3]

[2] Furthermore, that work is largely theoretical in its nature (see Alesina and La Ferrara, 2000; Glaeser et al., 2002). Empirical attempts, on the other hand, are fairly recent and tend to focus primarily on social capital in one country (see Glaeser et al., 2002 for evidence in the United States and Groot et al., 2007 for evidence in the Netherlands). For a recent extensive overview of social capital literature, see Durlauf and Fafchamps (2004).

[3] With the exception of Cyprus, Malta and Turkey, all new member countries are former communist countries. This shared legacy of communism and central planning is one of their main distinguishing features in comparison to the old member countries of the EU. Therefore, the on-going post-communist transition process is an important aspect of our analysis.