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Social capital in the creation of human capital and economic growth: A productive consumption approach

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Abstract

Social capital is a broad term containing the social networks and norms that generate shared understandings, trust and reciprocity, which underpin cooperation and collective action for mutual benefits, and creates the base for economic prosperity. This study deals with the formation of social capital through development of human capital that is created from productive consumption. This paper attempts to formalize incorporation of social capital (SK). This paper sets up a one-sector growth model, where the engine of growth is capital accumulation. The production function for final output is of the AK-type, which uses aggregate capital as single input. Aggregate capital is represented by a Cobb–Douglas index comprising three types capital. Human capital accumulation results from productive consumption and an increase in social capital is driven by the existence of human capital. The optimal growth rate of consumption is derived and it is shown that both human capital and social capital accumulation affect the equilibrium growth rate. Finally, paper presents some empirical evidence on social capital and economic growth.

JEL classification: Z_{130}; J_{240}; O_{150}

Keywords: Social capital; Human capital; Economic growth; Network; Cooperation; Collective action; Trust and reciprocity

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1. Introduction

The study of determining factors of economic growth in the literature mainly focuses on economic factors like relative stock of physical and/or human capital, trade, and available technology, etc. Earlier studies omit a relevant dimension: social factors such as culture, social norms and regulations, which may act as pivotal role for promotion of economic growth and development. This paper addresses one of the issues that still remain open in the literature: the channels and mechanisms through which social factors affect macroeconomic performance. Recently, economists become more and more interested in the role of social culture/behaviour as an explanation for why some regions/countries are rich and others remain poor (Putnam et al., 1993). Several studies have investigated the impact of social culture, which includes social structure based on trustworthiness, norms, regulation, cooperation and networks. All these lead to develop a new concept—social capital (Bourdieu, 1980, 1986; Coleman, 1988, 1990; Putnam, 2000; Putnam et al., 1993; Fukuyama, 1995).

The concept of social capital has a long history in the social sciences. Bourdieu (1980, 1986), Coleman (1988, 1990) and Putnam (1993, 1995, 2000) are credited for introducing the concept of social capital[1] and popularized it. Coleman (1990) defines social capital: '. . .social organization constitutes social capital, facilitating the achievement of goals that could not be achieved in its absence or could be achieved only at a higher cost.' Putnam et al. (1993) provide similar characterization, '. . .social capital. . .refers to features of social organization, such as trust, norms, and networks that can improve the efficiency of society.' According to them, social capital is a type of positive group externality that arises from social organization. Fukuyama (1995) argues that only certain shared norms and values should be regarded as social capital. '. . .Social capital can be defined simply as the existence of a certain set of informal rules or norms shared among members of a group that permits cooperation among them. . . .The norms that produce social capital. . .must substantively include. . .meeting of obligations, and reciprocity.' Putnam (2000) introduces the idea of social capital in terms of relations or interdependence between individuals: '. . .social capital refers to connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them.' 'Social capital may be defined operationally as resources embedded in social networks and accessed and used by actors for actions' (Lin, 2001). So, the concept of social capital has two important components: (i) it represents resources embedded in social relations rather than individuals and (ii) access and use of such resources reside with actors. Thus, social capital creates a common platform in which individuals can use membership and networks to secure benefits.[2] Social capital is the shared knowledge, understanding, norms, rules and expectations about patterns of interactions that groups of individuals bring to a recurrent activity (Ostrom, 2000). Thus, social capital can be considered as the stock of active connections among individuals—the trust, mutual understanding, and shared values and behaviours that bind the members of human networks and make possible cooperative action (Cohen and Prusak, 2001). Social capital is usually understood as referring to the values and norms prevailing within the community, to the networks that are based on those values and norms, and to the social trust that evolves through those common values and networks. Actually, social capital is a broad term containing the social norms and networks that generate shared understandings, trust and reciprocity, which

[1] See also Lin (2001); Ostrom (2000); Cohen and Prusak (2001); Rose (2000); Bertrand et al. (2000); Beugelsdijk and Smulders (2004); Glaeser et al. (2000); Knack and Keefer (1997); Tau (2003), etc.

[2] Individuals are engaged in repeated interactions with others and everyday business, thereby, social transactions are less costly.