



Local social capital and geographical mobility

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ABSTRACT

In the North of Europe, club membership is higher than in the South, but the frequency of contacts with friends, relatives and neighbors is lower. We link this fact to another one: the low geographical mobility rates in the South of Europe relative to the North.

To interpret these facts, we build a model of *local* social capital and mobility. Investing in local ties is rational when workers do not expect to move to another region. We find that observationally close individuals may take different paths characterized by high local social capital, low mobility and high unemployment, vs. low social capital, high propensity to move and higher employment probability. Employment protection reinforces the accumulation of local social capital and thus reduces mobility.

European data supports the theory: within a country and at the individual level, more social capital is associated with lower mobility.

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1. Introduction

"[...] it appears evidently from experience that a man is of all sorts of luggage the most difficult to be transported."

Adam Smith, "Wealth of Nations"

In Europe the fraction of the 0–99 years old population having moved to their current residence within a year is small (around 5%), according to estimates from the European Community Household Panel (ECHP hereafter). This value varies across European countries, with residential mobility being lowest in Southern European countries (2.8% in Spain, 2.7% in Portugal, 2.1% in Italy, 1.9% in Greece) and in countries such as Ireland and Austria (1.9 and 2.3, respectively) and is highest in Scandinavian countries (7% in Sweden, 9% in Finland, 6.6% in Denmark) and in Germany (6.8%). In contrast, according to the US Census population, the US residential mobility rate in 2000 was 15.5%. Regional mobility is also low in Europe, compared to the US where about 30% of individuals were born in a different state. By contrast, in Europe this proportion is only 20% for individuals born in a different region within the same country (at least in regions similar in size to the US states).¹

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¹ More specifically, this figure is 19.2% in Belgium, 12.7% in Portugal and 16.8% in Austria. In Spain this number is slightly higher (23.5%) but the regions there are smaller. In these four countries the average rate is 18.1%, as opposed to Belgium for instance, since Belgium has three regions. See Brunello et al. (2007) for regional mobility figures.

We link these facts to another set of facts: countries differ quite widely as regards to social capital investments, and more precisely, in the type of social capital accumulated. In the ECHP, individuals are asked about: (i) the frequency of relationships with neighbors, (ii) the frequency of contacts with friends and relatives outside the household, and (iii) club membership. Transforming the answers to the first two questions into a daily frequency² to simplify the exposition, we report country averages in Table 1. With respect to the above questions, one can observe a striking *North–South divide*: in the South of Europe (and in Ireland too), there is a higher frequency of contacts with friends, relatives and neighbors, and lower membership rates in clubs and associations. The opposite holds in the North of Europe.

We interpret this as a difference in the nature of social capital. Strong family and friendship ties reflect a relatively more *local* social capital, thus *making mobility more costly*. Local social capital reflects the ties that individuals have to their region/area of origin, and is therefore partly or fully depreciated upon mobility. In contrast, being a member of a club (such as a Scrabble or a chess league) can be considered as less local and more general kind of social capital: club members can build new ties in another club in a new city, and this may even help them cope with mobility.

We argue in this paper that the concept of local social capital provides a convenient and parsimonious explanation to cross-country variations in geographical mobility rates in Europe, and in particular why it is lower in the South and higher in the North of Europe. Further, we illustrate how various types of social capital

² Details on the procedure and questions are given in Section 5.

Table 1
Aggregate social capital.

Country	Friendfreq	Neibfreq	Club
<i>Nordic countries and the UK</i>			
Denmark	0.43	0.418	0.621
Finland	0.459	0.523	0.525
Sweden	0.436	na	0.694
UK	0.576	0.280	0.627
<i>Western Europe</i>			
Austria	0.358	0.463	0.495
Belgium	0.410	0.390	0.394
Germany	0.147	na	0.328
Ireland	0.789	0.620	0.487
Luxembourg	0.448	0.473	0.410
Netherlands	0.420	0.367	0.480
<i>Southern Europe</i>			
Greece	0.695	0.808	0.121
Italy	0.576	0.547	0.238
Portugal	0.478	0.666	0.215
Spain	0.740	0.681	0.285
<i>Correlation with</i>			
Friendfreq	1	0.61	-0.22
Neibfreq	0.61	1	-0.79
Club	-0.22	-0.79	1

Notes: The table displays the average value of the social capital measures by country for the active population. Dimension: daily frequency of contacts with friends and relatives (friendfreq), with neighbors (neibfreq), or average club membership (club). Sample period is 1994–2001, except Finland (1996–2001), Sweden (1997–2001), Austria (1995–2001) and Luxembourg (1994). “na” refers to non-available data. See Section 5 for more details on the methodology used to construct these indexes.

have different impacts on mobility and unemployment rates. The reciprocal is also true, since the anticipation of mobility affects social capital investments, as mentioned in Glaeser et al. (2002). If individuals perceive themselves as being strongly attached to a village, a township or a region, they will invest in local social capital, because the returns from these local ties are high.

Understanding the determinants of geographical mobility matters as it reflects economies' ability to cope with change and to reallocate production factors to where they will be more efficient, and ultimately to raise the aggregate employment rate. In particular, an influential work by Bertola and Ichino (1995) documented the inability of European workers to move to more dynamic regions. According to these authors, this occurs because of wage and income compression, thus lowering the returns from mobility. Low mobility and wage compressing labor market institutions have indeed been central in many explanations of unemployment in Europe (see Layard et al., 1991; Layard and Nickell, 1999), since residential mobility widely differs across countries. In this paper we enrich these theories using the concept of local social capital.

In Section 2, we first review the literature on social capital and emphasize its implicit or explicit geographical dimensions. In Section 3 we develop a simple partial equilibrium job search model with geographical mobility decisions, given the level of social capital. We show that more social capital always reduces mobility with ambiguous effects on unemployment: social capital increases unemployment only if it depreciates more after geographical mobility than after job loss. In Section 4, we explore the determinants of social capital. We find that ex ante observationally close individuals may behave very differently: some will not invest a great deal in local social capital and will thus be more mobile and better employed, while others will invest more in local social capital, remain immobile and unemployed, but enjoy the returns to their social capital.

In Section 5, we match theory and the data by providing a panel analysis based on the ECHP. Using probit, IV and fixed effects, we

establish a few stable relations within the data, notably: (1) Individuals endowed with more local social capital as described by the variables “Friends/relatives”, “Neighbors” or “Club” are less likely to move to another region. (2) Individuals endowed with more local social capital such as that described by the variables “Friends” or “Neighbors” are more likely to become unemployed. (3) By contrast, individuals who are members of a club are less likely to become unemployed. (4) In all three dimensions measured, workers in a region not that of their birth have less social capital (“Friends/relatives”, “Neighbors” and “Club”).

In the conclusion, we further explore the explanatory power of social capital on aggregate unemployment, and conclude that more work on this issue is needed, given the concept's potential. Finally we argue that, as a result of these two *self-reinforcing* causalities and this externality, local social capital is a binding factor: even in the presence of strong economic incentives to migrate, such as regional unemployment differentials, individuals may prefer to live on welfare and enjoy local social capital.

2. Local social capital: selected literature review

There are many definitions of social capital. In this section, we attempt to define the concept in relation to our own purpose: to link social capital with geographical mobility and employment decisions. Durlauf and Fafchamps (2005) distinguish between two different definitions of social capital: (1) “outcome-oriented” definitions and particularly the importance of group externalities caused by the existence of social capital; (2) definitions focusing on the nature of relations and the interdependence of individuals embodied in social capital, such as “shared trust, norms and values”. The former results more from the existence of social capital, and the latter its nature. Here, along the lines of Glaeser et al. (2002),³ we deal with the consequences of social capital, focusing on the localness of social capital and its depreciation.⁴

The depreciation of social capital is not a new idea: Coleman (1990) in particular clearly expressed the idea that social capital can depreciate if there is no investment to renew it. “*Social relationships die out if not maintained; expectations and obligations wither over time; and norms depend on regular communication*”.⁵ Although there is no explicit spatial dimension here, a simple cost–benefit analysis suggests that being further away (geographically) increases the maintenance cost of social capital and is associated with lower stock in equilibrium.

The localness is also implicit in many works. Even before the term “social capital” was introduced, studies such as that of Jacobs' (1961) on large American cities, underlined the importance of implicit rules in neighborhoods: a knowledge of those implicit rules allows for the building of trust. She showed that social ties are especially stronger in older neighborhoods. This work is one of the earliest in which the geographical dimension of social capital is stressed: social ties as defined here cannot be moved from one place to another. Schiff (1992) argued that higher mobility could be detrimental to welfare, due to an excessive depletion of social capital.⁶

It is also worth noting however that social capital is not exclusively local, and instead can be built in order to promote mobility.

³ Glaeser et al. (2002) notably argue that “social capital declines with expected mobility” and confirm this prediction with an expected probability score based on demographics.

⁴ Our definition of social capital obviously belongs to the second set of definitions proposed by Durlauf and Fafchamps. Indeed, we define the social capital according to its local characteristics.

⁵ See Coleman (1990, p. 321).

⁶ See also Schiff (2002) for a similar argument in a trade context and sound conclusions regarding both trade and immigration policies.

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