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Social capital and public goods

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ABSTRACT

Previous literature suggests positive relationships between social capital, pro-social behavior and subsequent economic development. We analyze the relationship between social networks and trust (two measures of social capital) and self-reported charitable contributions of time and/or money (pro-social behavior) using data collected from two ethnically distinct, low-income neighborhoods. We find that large social networks are positively related to charitable contributions, but that the effects of trust are less robust. We also find that social networks that are more geographically dispersed tend to be larger. Our results indicate that the social capital in a neighborhood is more important than ethnicity, ethnic diversity, or other demographic information in understanding public goods contributions.

Nobel Peace Prize winner Dr. Muhammad Yunus compared the poor to a bonsai tree. There is nothing inherently wrong with the seed, but a lack of adequate soil keeps the tree small and prevents it from reaching great heights (Yunus, 2008). However, unlike the bonsai tree, it is difficult to prescribe a recipe that will allow a poor person to advance beyond poverty. Even if such a recipe existed, it is not clear that the same recipe would work in different contexts. In this paper we assert that the provision of local public goods are one means of increasing economic opportunities for residents of low-income communities, and we study how the voluntary provision of local public goods might be improved. We do this by examining the relationship between social capital and local public good contributions among the poor.

A growing literature examines observational measures of these constructs and finds a relationship between social capital, local collaborative behavior and economic development (e.g. Olken, 2006; Quillian and Redd, 2006; Temple, 1998; Sampson et al., 1997; Helliwell and Putnam, 1995). Others use experimental economics techniques to study the determinants of pro-social behavior (see e.g. Camerer, 2003, chapter 2; Frey and Stutzer, 2007, chapters 3–5 for reviews). Both of these literatures suggest that pro-social behavior will foster a nurturing environment for economic advancement. We contribute to this literature by analyzing measures of social capital and self-reported voluntary contributions by residents of two low-income, minority neighborhoods. Our research advances the existing literature by studying the determinants of pro-social behavior for a group of people (the poor) for which increased pro-social behavior has the potential to yield large benefits and in the environment in which the social relationships exist naturally—residential neighborhoods.

We employ survey data to examine the relationships between measures of social capital and self-reported voluntary contributions of time or money to local charitable organizations. Thus, we do not analyze the relationship between pro-social behavior and economic development directly, as has been done in the previous literature. Rather, we focus on the link between social capital and contributions to the public good. This is a possible path-way through which social capital might influence economic development.

We examine residents of two different low-income residential neighborhoods. We ask which features of social interactions might be leveraged to increase public good provision in the neighborhoods and test the contextual nature of these relationships.

We find two social capital results that are robust across neighborhoods. First, a larger social network is positively related to the propensity for making neighborhood contributions. Second, network structures that are more geographically dispersed are indicative of larger social networks. These results indicate that social capital is an important factor in understanding local neighborhood giving.

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1. Social capital

Social capital was popularized among economists most recently by the seminal work of Putnam, Leonardi and Raffaella, (1993) and has since been associated with economic growth and other positive development outcomes (e.g. Beugelsdijk and van Schaik, 2001; Rodrik, 1999; Temple and Johnson, 1998; Adelman and Morris, 1967). A variety of definitions exist, but social capital may be concisely described as features of social organization, such as social networks and trust (Putnam, 1995). Empirically, social capital has been characterized by trusting responses to the World Values Survey trust question: "Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?" Several studies have found that higher percentages of trusting responses to this question correlate positively with GDP growth (Whiteley, 2000; Knack and Keefer, 1997; Rodrik, 1999; Zak and Knack, 2001).

However, the relationship between a given level of social capital, the context in which it exists, and its economic impact is not always straightforward. Grootaert (1999) found that high income households benefit more from human capital than social capital, but the opposite is true of low-income households. For example, the impact of social capital can vary greatly depending on the other resources (such as wealth, education, or institutions) available as substitutes (Rodrik, 1999; Knack, 1999). This leads to varying effects of social capital across social and economic levels.

Perhaps most lacking from the existing social capital literature is an understanding of the mechanism(s) through which social capital works. Why do countries whose citizens report being more trusting of others have higher GDP growth? Does trust increase the ease of market transactions, thus facilitating growth; or do people trust more because the institutions in these countries function more effectively; or is their some other explanation? Our data will distinguish between two types of social capital—trust and social networks—in an attempt to move towards an answer to these questions.

1.1. Trust

While trust has the potential to lower transaction costs because it reduces the need for monitoring, the WVS trust question which asks whether people in general can be trusted (hereafter referred to as the "general WVS trust question") has not been a good predictor of trusting behavior in experimental trust games (Glaeser et al., 2000).[1] This suggests that the correlation between the general WVS trust question and per capita GDP, is not a result of greater trusting behavior (lower monitoring costs) in economic exchange. Anderson et al. (2004) proposes another mechanism. They find that the general WVS trust question does have predictive power in estimating giving in a public goods experiment. Thus, trust might increase economic development through its impact on public good provision.

In our study we will address this question by analyzing the relationship between trust and self-reported contributions towards local public goods for individuals in low-income minority communities. Thus we test the relationship between trust and public good contributions for subjects who trust (or don't trust) individuals within their own community and who give (or don't give) to real public goods. Additionally, the trust question which we utilize is more specific than the general WVS trust question used by the previous author. The question which we use asks whether specific groups of other people can or cannot be trusted.

[1] The WVS trust question studied by Glaeser et al., 2000 and Anderson et al., 2004 is "Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?".

Our data on trust will indicate if the results found by Anderson et al. (2004) are observed in non-student samples who participate in real-world public good contribution decisions. We believe that undergraduates alone are not a sufficient subject pool for understanding the implications of social capital. Social capital is a resource utilized differently by the rich and the poor and perhaps across other demographic features (Grootaert, 1999). Additionally, we combine the study of trust with the study of social networks.

1.2. Social networks

While previous empirical studies have examined trust as a measure of social capital, our social capital variables also include measures of social networks. We believe that studying social networks may provide policy insights which are more easily implemented than the policy insights gained from studying trust alone. We thus make a unique contribution to the existing literature by providing a measure of social networks and examining its relationship with voluntary provision. It is difficult to imagine policy prescription which might alter an individual's level of trust directly; but policy can impact the ease of network formation. For example, well-maintained public areas, safe well-lit parks, community festivals and events, and schools whose administrators actively engage the community encourage social network formation. Also, municipal districting can be structured so as to promote pedestrian activity and community gathering places.

We examine two characteristics of social networks that might impact the voluntary provision of public goods in different ways: network size and network structure. The size of the social network is an indicator of the social connectedness of an individual. Individuals with lots of contacts are more likely to be socially engaged, and be able to rely on others as a safety net during times of adversity. However, not all networks of a given size are equal; network structure is also important. "Tight-knit" networks in which all members know each other are referred to as having a closed network structure; while more diverse social networks in which many members do not know each other have an open network structure. We measure the degree of network closure by asking if family members and friends in one's social network know each other. If the answer is yes, the social network structure is characterized as closed. Since we are examining the voluntary provision of public goods among neighborhood residents we are also interested in the geographic dispersion of social networks. We measure the geographic concentration of social networks by asking individuals if their network is primarily composed of individuals who reside in the neighborhood or outside of the neighborhood.

2. Hypothesis

We explore the relationship between multiple measures of social capital (trust and social networks) and voluntary provision of public goods via self-reported contributions of time and money. In addition to demonstrating these relationships, we compare the relationships across two different neighborhoods which vary in their ethnic and cultural composition.

We expect a positive relationship between trust and voluntary community contributions, in a manner similar to the relationship Anderson et al. (2004) found between trust and experimental public good contributions. However, we also expect social networks to play a role in explaining community contributions. Others have asserted that within the contexts of local neighborhood communities, social networks are likely to be related to voluntary contribution behavior (Miguel et al., 2003; DiPasquale and Glaeser, 1999; Rose, 1999; Sampson et al., 1997); but none have tested this relationship explicitly.