A THEORETICAL APPROACH OF THE CONCEPT OF SOCIAL CAPITAL IN SUPPORTING ECONOMIC PERFORMANCE

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Any activity requires the presence of labor resources. If centuries ago the concept was that their presence was enough, now it takes a lot more. Moreover, since Aristotle the issue was taking into consideration all aspects of the community life that can lead to a "better life". In the current conditions we may consider resources in the broader context of the human factor and of the relations established within a society. Thus social capital was conceptualized. As opportunities of economic growth - based purely on the quantitative aspects of the determinants – were limited, the need occurred to reconsider the qualitative and structural components.
Social capital considers a number of the integrative components of social life. These refer to the relations established at family level up to the level of societal institutions. It is necessary that these relationships be well established, and for the proper performance it is necessary that aspects of education and health should be properly valued and assessed. This helps setting up strong institutions. Developed countries have the ability to create a proper environment for the manifestations of social capital; in these countries one can observe the growing importance of formal and more impersonal relations. But this just reinforces the occurrence and development of economic activities based on efficiency criteria leading to the countries' economic development.
The interpretations of economic development issues have undergone changes in recent decades. If previously it was considered that the essential difference between rich and poor countries is reflected in the amount of physical capital per person, later on the concept of capital has been expanded to include as well human capital, the lack of which was considered a serious obstacle to development, particularly in the case of poor countries. And given the fact that the transactions within an economic system take place in an institutional and cultural framework that defines the majority of the transaction's features, the present paper analyzes the concept of social capital - which alongside other forms of capital significantly influences economic progress - in order to emphasize the link between the functionality of institutions, culture and the level of economic development.

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Individual behavior and the economic activity

The economic activity comprises first of all relationships of production, exchange and consumption of goods, implying – at a deeper level – interactions with other individuals, the coordination of human activity being basically a social problem, referring to how people's behaviors are interconnected, thus being closely related to the social order in general.
The individuals' preferences are formed under the influence of the environment in which they live, the alternatives being determined by the structure of institutions in which they are integrated and in which they perform their activity. The individuals' behavior is shaped by social and cultural norms, regarding both perception and decision, their needs being induced by the society, and the choices they make are conditioned by the social and cultural context they are part of (Ekkehart, 1998).
To explain the phenomena related to their material life, people make use of the economic theory. The human activity is largely repetitive; people consume goods, which are to be produced under certain conditions and distributed according to certain rules. The condition for an activity to take place is precisely the existence of order in the society, an order provided by culture, habits,

institutions and by rules. The economic mechanism, on the other hand, requires a stability regarding behavior in order to reduce the degree of uncertainty.

The performance of an economy depends not only on the existing technologies but also on the way these are used, i.e. the way the individuals act and interact. North (1995) emphasizes the role of institutions in the functioning of the economic mechanism, arguing that they have an essential role in shaping preferences and in establishing the level of transaction costs. Coase argued the importance of the New Institutional Economy, namely the fact that a country's institutions (the legal system, political system, social system, education and culture) are the ones that manage the performance of an economy. The institutions are considered to also have the role of providing the necessary knowledge to the agent in his interaction with other decision makers; in this regard, the institutions provide a means of orientation leading towards reducing uncertainty and allowing the formation of a valid expectation about the future actions of the agents, disposing of the information on the expected behavior of the others.

Given these conditions, the social norms have a more and more increasing role in the successful development of some economic activities. These norms are based on cultural values (Coleman, 1988) and therefore rooted in a country's national culture. If social norms induce compliance with contractual obligations and fairness in conducting business, the need to resort to the judiciary to impose these obligations is far less necessary; the legal system is more efficient and the economy is more likely to develop. North (1981) argues that "the existence of ethical and moral codes in a society represents the glue for the social stability that makes the economic system turn viable". Viewed through Putnam's analysis of social capital (1993), the issue arises of how social capital can be formed – "trust, norms and networks that improve the efficiency of the society by facilitating coordinated actions". First there would be education – through participation in various civic and religious organizations – which may lead to establishing rules and attitudes that facilitate cooperation. Second, cooperation is the result of including norms of reciprocity into the society's culture. And in order to understand the contractual behavior it would be important taking into account its relationship with the formal institutional structure and with the informal social norms, as neglecting the institutional framework's impact on the contractual behavior and cooperation in general can lead to flawed conclusions.

The way people act is largely determined by their experience – their perception of values and ways of forming preferences, decision-making and acting – mental patterns (North) or the software of the mind (Hofstede). These mental patterns are influenced both by people's national and organizational culture – both of them playing an important role in the working of an organization in particular and of a country's economy in general.

The transactions within an economic system take place in an institutional and cultural framework that defines the majority of the transaction's features; the standard theory ignores this element, considering that this framework is given, it is not likely to change and it is exogenous to the system (private property, freedom of trade, the lack of non-economic and cultural barriers). Following these assumptions makes it almost impossible to justify the performance differences between the world's economies. Studies have shown that the efficiency of running a business depends particularly on cultural factors, which vary from country to country, or even within a country from one region to another.

The impact of social capital on economic development

Many economists and other social scientists studying less developed countries have been aware that the institutional environment in these countries differed from that in industrialized and developed ones. In the early postwar decades there were intense debates about the degree to which standard neoclassical economics needed to be modified to apply to less developed countries; the standard neoclassical economics was based on institutions that existed in industrialized countries but that did not necessarily exist in less developed countries. After World

War II development economics assumed that the institutions of the economy were different, but there was little attention among economists to the evolution of these institutions or to deep explanations of them. Thus occurred the need for new variables to be introduced, one of the most important being the social capital.

The concept that underlies social capital has a much longer history. Aristotle and Thucydides observed and analyzed human behavior, stressing that there had to be a framework within which the members will together pursue the object of their common purpose; point of view which was subsequently criticized with the "rational choice theory". Many other thinkers questioned the complicated relationship between "modern society" and the importance of "old institutions", in particular family and traditional communities. Analyzing the evolution of capitalist societies it can be observed that urbanization and industrialization were transforming social relationships in an irreversible way, observing a breakdown of traditional bonds and the progressive development of alienation in society. Tocqueville integrated the concepts of social cohesion and connectedness, and the first direct use of the term "social capital" might be allotted to Dewey, although in 1900 he did not offer a definition.

Early attempts to define social capital focused on the degree to which social capital as a resource should be used for public good or for the benefit of individuals; it can be defined as representing the norms and social relations embedded in the societies' social structure, due to which people coordinate their actions in order to achieve the expected results; thus it can be noted that social capital comprises those features of social relationships – interpersonal trust, norms of reciprocity, participation in civic organizations, and interpersonal and inter-organizational networks – which facilitate cooperation and collective action oriented towards a general benefit, being thus incorporated into the structure and quality of social relationships between people.

Social capital, in terms of social potential, is considered to improve the economic activity background in a way similar to technical infrastructure; social capital influences the quality of education and health, facilitates access of individuals to markets, supports complex operations and enables the activities' long-term planning. Thus it was established close correlation between social capital, the quality of social governance and organization and the level of a country's economic development (Putnam, 1993), showing that economic activity improves its effectiveness in a community that disposes of a substantial stock of social capital, where the networks of individuals civically involved strengthen norms of reciprocity and further leads to social trust, these networks facilitating communication and cooperation, thus offering a solution to the collective action issue. Other ideas state that generalized trust (based on the ethical behavioral habits and moral norms of reciprocity tacitly accepted by the members of the community) is essential for cooperation and economic development, determining the industrial structure of an economy; it can be argued that social capital is a necessary precondition for successful development, but a strong rule of law and basic political institutions are necessary to build social capital. He believes that a strong social capital is necessary for a strong democracy and strong economic growth. The USA, Japan, and Germany are high trust societies, where trust is not restricted to the family, but generalized, and there can be easily found large, professionally managed corporations, as people are better able to cooperate on an enlarged scale, while in Italy and France, for example, smaller and family owned and managed firms dominate the industrial structure. The strength of family ties may be detrimental to the emergence of large organizations, and where these are not accompanied by a strong culture of work and education it may lead to stagnation. Even so, this does not necessarily mean that high trust, and hence large organizations are better for aggregate growth, since what they gain in scale may be lost in flexibility and promptness of decision-making.

Less developed countries cannot ignore the issue of social capital; the former communist countries face a shortage of social capital, the communist period being characterized by a hypertrophied relation between state and citizen, respectively the lack of voluntary association in

joint projects. On the other hand, the level of trust proved to be much lower, given that individuals did not compete for limited resources – that having immediate effect on trade. Also, it can be noted that the lack of informal rules that constrain individual behavior is often futile to states' legislative efforts.
Studies in the field have identified several forms of social capital, including trust as integrative part of social structures, rules and sanctions, informational channels (Coleman, 1990), the main components of social capital being trust, norms of conduct and networks of people (Putnam, 1993), trust and norms of conduct being allotted special importance, reflecting a different perspective on institutions existing in a society. Coleman states that social interaction brings about long lasting patterns of relations, which represent a resource available to individuals; such resource may be accumulated or depleted over time. The World Bank defines social capital at the broadest level as "the norms and networks that enable collective action" Another conclusion states that these rules are the result of repeated interactions in the community (Ostrom, 1990), and – once established – they are transmitted to future generations through a process of socialization. Of course, a common way to create social capital – intentionally and consciously – would be the establishment and enforcement of formal rules by an authority; their repeated acceptance and employment further leads to their functioning similar to informal norms. Compared to other forms of capital – financial or human capital – the social capital is less tangible and more difficult to measure, its dimension being of more qualitative nature; moreover, the goals pursued by one group can be in accordance or contrary to those of other groups, so that the externality effect cannot be overlooked, which can be positive – offering incentives also to individuals outside the group responsible for creating the capital social, or negative – in case the group members develop and encourage intolerance against non-members. Collier (1998) focuses on both these aspects, analyzing social capital in terms of those externality-generating social interactions which are either themselves durable or whose effects are durable, distinguishing among the various institutional levels at which social capital may be present – the family, the organization, the government and the civic society (the World Bank site also considers communities, ethnicity and gender as specific sources of social capital, particularly relevant in the context of development).
The concept of social capital is related to a certain number of other concepts. Narayan (1999) discusses its relationship with the notions of social capability (defined by Adelman and Morris), of social exclusion and of civic engagement. Corneo and Jeanne (1999) study the connection between growth and social organization, a concept related to social capital but independent of it. Cole, Mailath and Postlewaite (1992) is a classical reference of the contribution on the link between social norms and growth, although Hirsch (1976) provided an earlier analysis of the social limits to growth. Knack and Keefer (1997) discuss three main relationships – between trust and civic norms and economic development, between associational activity and growth, and between trust and civic norms and their determinants, including associational activities and formal institutions; their findings show that "trust and civic cooperation are associated with stronger economic performance", adding though that "associational activity is not correlated with economic performance".
Studies have also shown a positive correlation between the degree of trust in a particular geographic area and the effectiveness, respectively, the level of economic development of that area, stressing that the issue of trust is more sensitive in societies / groups consisting of a large number of people, given that the available information is scarce due to the impersonal character and to the reduced frequency of interactions; trust is considered as an essential component of social interactions both on the market and within the enterprise, starting from the idea that trust, as an institution, plays an important role in facilitating cooperation between agents, but the idea of the existence of a market for trust being obviously a contradiction of terms (Arrow, 1974). Its

key role is to reduce uncertainty by limiting probable alternatives, turning predictable the behavior of partners.
Even the legal system's effectiveness depends on the trust of contracting parties on its working properly; it would be important to note that detailed contracts are concluded when the parties show reduced mutual trust. Several studies also show that the quality of government is positively influenced by social capital. Hall and Jones (1999) point out that a relevant part of country productivity is due to the country's institutions and government policies (i.e. social infrastructures).
One of the possibly most relevant contributions of social capital is to the formation of human capital, fact which was early recognized by Coleman (1998) who argued that the same basic individual skills have much better chances of being well cultivated and developed in a socially rich environment than in a socially poor one, stressing the link between social capital and education. He also stresses the fact that social capital, determining the degree of social cohesion, may have a relevant influence on the rates of crime and violence (Coleman, 1990). Positive correlation between average education and social capital was found also by Helliwell and Putnam (1999), stressing the virtuous dynamics between human capital and social capital accumulation, trust-enhancing policies being considered able to start a multiplier mechanism. These policies may have relevance for the purpose of long-term growth, i.e. reputation mechanisms may substitute trust in well-operating markets, but in emerging markets such element of stability is absent, so that the level of trust and trustworthiness may determine whether some innovative or idea-intensive activities develop or not.

Conclusions

The analysis of social capital allows us to consider social development in terms of its accumulation. Clearly put, social capital comprises those features of social relationships – interpersonal trust, norms of reciprocity, participation in civic organizations, and interpersonal and inter-organizational networks – which facilitate cooperation and collective action oriented towards a general benefit, being thus incorporated into the structure and quality of social relationships between people; the notion of social capital refers to a form of capital that is encompassed in the social structure of a group, rather than in physical objects or in single human beings, like physical and human capital. Therefore it can be noted that the institutions' input towards economic success is related to their capacity to support impersonal transactions. The importance of trust to economic performance is reflected by the fact that the lack of it leads to a decreased number of opportunities.
Emphasized is also the social potential induced by social capital, being considered to improve economic activity background in a way similar to technical infrastructure; social capital influences the quality of education and health, facilitates access of individuals to markets, supports complex operations and enables the activities' long-term planning. In this regard it was also stressed the importance of social cohesion towards a country's economic development, the concept of social capital being considered as influencing development theory, practice and policy.
It can be noted that the analysis of social capital at enterprise level would bring about clearer results, as the internal organization of an enterprise is intentionally designed to register profit, so this is one of the few cases in which social capital is the product of a specific investment (money spent not only to design internal structures, but also to train managers and workers to work in groups) and not only the by-product of other activities.

We can add that one of the key contributions of social capital is to the accumulation of human capital; it is much easier to develop individual skills in a socially rich environment than in a socially poor one. Since human capital accumulation constitutes an engine of growth in advanced economies, social capital could be regarded as a deep root of growth processes.

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