

Social Capital in Poverty Reduction and Economic Development

The Role of Social Networks in Economic Action

Theories of economic development stress the importance of money and machinery, a healthy and skilled workforce and technology. However, development and growth specialists are uncovering the importance of social cohesion for societies to prosper economically and for development to be sustainable (Knack and Keefer 1997, Putnam 1993). "Social capital...forms the underpinnings of poverty and prosperity." (Narayan 1997)

Granovetter (1995) underscores that virtually all economic behavior is embedded in networks of social relations. Social capital and trust can make economic transactions more efficient by giving parties access to more information, enabling them to coordinate activities for mutual benefit, and reducing opportunistic behavior through repeated transactions (Dasgupta 1988). Social capital plays a significant part in shaping the outcomes of economic action at both micro and macro levels (Rodrik 1998).

Contents
• Social capital and economic policies
• Social capital and economic growth
• Globalization and social capital

See also...
• Suggested reading on Social Capital in Poverty Reduction and Economic Development

Economic Development at the Micro Level

Family

- Social capital is used among the poor to insure themselves against shocks, such as bad health, inclement weather or government cutbacks and to pool their resources, such as food, credit or child care. In addition to enabling poor people to start up small enterprises and increase their income, informal relationships often mean the difference between day-to-day survival and despair.

Firm

- Dense and overlapping social networks increase the likelihood of economic cooperation by building trust and fostering shared norms. The social capital generated within and between firms is especially important for lowering risk and uncertainty at the local level (Fountain 1998).
- Social capital facilitates valuable information exchange about products and markets and reduces the costs of contracts and extensive regulations and enforcement. Repeated transactions and business reputation provide the necessary incentives for parties to act in mutually beneficial ways.

Community

- In Tanzania, social capital at the community level impacted poverty by making

government services more effective, facilitating the spread of information on agriculture, enabling groups to pool their resources and manage property as a cooperative, and giving people access to credit who have been traditionally locked out of formal financial institutions (Narayan 1997).

Economic Development at the Macro Level

Societal level social capital is critical in determining how the government functions (Putnam 1993) and what types of private sector develops in an economy (Fukuyama 1995).

Public Sector

Constructive state participation in economic development hinges on a delicate balance between external social ties and internal cohesiveness. Ideally, highly skilled and well-respected state bureaucracy utilizes its close working relationship with business leaders to enhance the market performance of private and public sector organizations. Government effectiveness, accountability and the ability to enforce rules fairly directly impact economic growth by enabling or disabling the development of domestic firms and markets and encouraging or discouraging foreign investment (Rodrik 1997, Putnam 1993).

Private Sector

Fukuyama (1995) found that more expansive social networks of the United States and Germany generate a greater number of large corporations than do societies like China, in which family networks form the foundation of private enterprise.

Simultaneously fostering economic development at micro and macro levels is critical in order to promote growth and alleviate poverty in ways that are sustainable.

Social Capital Topics:

● Crime & violence	● Information technology
● Economics & trade	● Poverty and economic development
● Education	● Rural development
● Environment	● Urban development
● Finance	● Water supply & sanitation
● Health, nutrition & population	