

**Social Capital:
Social Relations and Economic Rationality****INTRODUCTION**

Despite the proliferation of economic literature on social capital, no common definition is available. The World Bank's Social Capital Initiative (C. Grootaert and T. Van Bastelaer, 2002) underlines this fact as being inevitable. In the search for appropriate social capital indices, the Social Capital Initiative affirms that the best indicator varies from one context to another and, for this reason, leaves the choice of 'proxy' to the judgement of the researcher. A definition of social capital which is suitable for Italy might reveal nothing about the social capital of another region (Krishna and Uphoff, 2002). Nevertheless, these same empirical studies show that social capital exists. There exists a good which is produced by the action of more people, accumulates through its use, has a cost (given by time and efforts), and produces a persistent stream of benefits.

However, without a clear definition and an objective 'proxy', social capital remains a speculative concept, a discussion topic, which can be neither measured nor used as capital. Furthermore, without a definition, the problem of inferring causation between social capital and development has no solution.

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Consequently, social capital cannot be considered in the political economy of development.

If certainly the reasons for the missing common meaning of social capital are many, this article focuses on one, almost on the pre-condition of it: the 'rationality-in-relations' (Schmid, 2003). That means it focuses on the 'rationality' that hides within the two main methodological approaches on which the theories of social capital are based: the individualistic rational choice and the communitarian a-rationality.

The article suggests that the right question does not regard the choice between rationality and no-rationality, but instead the notion of rationality itself. It advocates the necessity of an ontological foundation of the theory of social capital and finds in the we-rationality of Hollis and Sugden (Hollis and Sugden 1993, Hollis 1998, Sugden 2000) a possible path to follow.

INDIVIDUALISTIC AND COMMUNITARIAN APPROACHES

It is well-known that every economic theory, and more in general all theorizing in the social sciences is based on a precise anthropological premise and on a specific principle regarding human behaviour, even when these models are not adequately specified and explicitly set out. The maximizing rationality that moves the economic agent in neoclassic theory relies on a isolated individual who alone takes independent decisions. This paradigm originates in the philosophy of rational choice whose promoters in the modern theory are Hobbes, Hume and Kant. Bentham and the utilitarians have given to it a mathematical structure and Savage synthesized this thought in a

structure that represents the foundation of the current theory of rational choice (Hollis and Sugden, 1993). According to this model, a rational agent has a “consistent preference ordering over all conceivable acts” These preferences and their ranking lead the choice and are dependent *only* on the consequences of this choice. A rational agent in this way is maximizing his expected utility. The utilities associated to the consequences of his choice are, in fact, numbers forming a ranking that is the same as the person’s preference ranking.

In this way, the notion of utility has cut out every motivational content of the action choice. Savage’s structure is the “culmination of attempts to purge utility theory of all psychological elements” (*ibid*, p. 26). Thus, the agents are motivated only by forward-looking reasons (the consequences - utilities - of their acts) and backward-looking motivations or commitments are not taken into consideration.

In this theoretical contest of absence of any ‘moral psychology’ and motivational assumption, the analysis of social life is studied by the theory of games as strategic interaction among “fully transparent agents with common knowledge of rationality and synchronism between preferences and choices” (*ibid*, p. 32). However, this individualistic approach applied to social interactions has its own problems and its paradoxes (see for example *The Enlightenment Trail*, in Hollis 1998) and propose the necessity of a more appropriate method. The necessity of a new marriage between economics, and philosophy and ethics, after the long divorce, cannot be postponed (Hollis and Sugden, 1993).

In a certain way, the paradox shows itself as hyperbole when the

individualistic rational choice is applied at the theory of social capital. In fact, in general economists and sociologists (Becker 1996, Coleman 1984, 1987, 1988, 1990) have come closer to the concept of social capital because they saw in it the means to mitigate the extreme individualism of neoclassic economics, which is considered to be non-representative of the real behaviour of economic agents.

However, so far no *really new* approaches have been developed and the theories of many of the most important scholars interested in social capital are still based on individual rational choice. Yet, a rational individual cannot trust and cannot be trusted; he is moved by a logic that conceives relations with other individuals in an instrumental way. He takes account not only of the behaviours of the others, but also of the account which others take. Rational individuals are “less than human in their lack of particular desires”, beliefs and “pleasure of someone’s company” and they are “more than human in their perfect consistency of preferences, powers of reasoning and knowledge of one another” (Hollis, 1998, p. 18).

In contrast to this approach is the communitarian model. Communitarian scholars (Fukuyama 1995, 1999) propose a return to a-rational behaviours, in other words a reverting to a behaviour according to inherited cultural values which have been passively learned in the traditional community. Implied in this approach is a holistic interpretation of social structure, which sees the individual’s freedom as of secondary importance. In a less explicit way other authors share this nostalgic view (Putnam, Leonardi, Nanetti 1003, Putnam 1995, Bowles and Gintis, 2002). Reason undermines trust; let then go back to

the community a-rational values. An important aspect of this approach is the resulting exclusion of outsiders and, as an implicit outcome, the instrumentality of the relationship to those not belonging to the community. This last aspect ironically links the communitarians to the individualistic approach.

Over-socialized subjects (Wrong, 1961) moved by inherited, traditional rules and strategic actors not closed in stereotypical role behaviours, but moved by rational choice, are the typical expressions respectively of the traditional and the modern 'together living': the moral customary community (Gemeinschaft) based on and linked in itself by solidarity, and the contemporary society (Gesellschaft) built on individual freedom (Bagnasco, 1999).

The two fundamental instances of human being - freedom and solidarity - appear diametrically opposed because they refer to two social unities which historically alternate: the community and the society. The emerging of the society is the expression of the social transformation, which consists of "the emancipation of the individual with respect to any kind of aggregation which preceded him". In the society the relations among the individuals have a contractual character and contrasting interests are often in tension and conflict (*ibid.*).

However, freedom and solidarity, if isolated, are radicalised and for this reason they are not appropriated in representing a good part of the real society that is often characterized by the presence of a type of social capital which is rational but not individualistic and not instrumental.

The importance of understanding the real content of the rationality of human behaviour (Hollis, 1998) cannot be sub-valued if we want to achieve a concept of social capital that can be successfully implemented in the political economy of development (Torsvik, 2000). With this goal I will now give evidence of the individualistic rationality or the communitarian a-rationality of the theories of social capital. There follows a critical exposition of the main ideas included in them.

A meaningful categorization of the theories of social capital classifies them in three groups:

1. the theories that consider social capital as an individual resource (Coleman 1984, 1988, 1990, Becker 1996, Pizzorno 1999, Glaeser, Laibson, Sheinkman and Soutter (1999), Nan Lin 2001, Glaeser, Laibson and Sacerdote, 2002);
2. the theories that consider social capital as a characteristic of the social structure (Dasgupta 1997, Dasgupta and Serageldin 2000, Granovetter 1973, 1985, North 1990);
3. the theories that identify social capital with culture and inherited social norms (Putnam 1993, 2001, Fukuyama 1996, 1999, Bowles and Gintis 2002).

INDIVIDUAL AND SOCIAL CAPITAL

In different ways the first two groups are based on the individualistic methodology of neoclassic economics.

In order to avoid a misunderstanding, a short premise is necessary. The affirmation of individual freedom and the assertion of the individual as subject of law and responsibility, able to take independent decisions are one of the

greatest attainments of modernity and democracy. In fact, it is threatened every time different forms of dictatorship appear, as recent European history shows. However, here I aim to say something different. Neoclassic economics has developed an analytical structure which finds in rational choice – identified with the optimal relation means/goals and expressed in the instrumentality – and in the isolated and solitary individual, paradigms needed to construct models and general laws of economic actions. Starting from the availability of this instrumentation, many social capital theories are not able to conceive a not instrumental social relation. That means a relationship which is not submitted to the fundamental law of the individualistic rational choice. This is what I want to underline critically: the individual and instrumental rationality is not able to grasp many economic and social choices. It has been developed independently from philosophical questions and achievements about the reason and the being.

Becker's project (Becker, 1996) is that of enlarging the economic rational choice approach introducing into it social relations. However, this attempt develops into a reinforcement of the individual rational choice. In Becker's theory, individual's preferences are also influenced by the decisions of the people whom the individual is related to. In this way, the individual's extended utility function includes not only the goods consumed, but also his *human capital*, which is composed of *personal capital* (previous consumptions and experiences, which influence the current utility) and *social capital* (the social network which the individual is part of).

What happens is that social capital and personal capital become variables

of the utility function and in this way they have influence on the individual's behaviour not because they limit his preferences, but through the preferences by modifying them. The rationality of individual choice is reinforced because now it takes into account also social influences.

In conclusion, Becker's concept of social capital is represented by the weight that the decision of the people who belong to the individual's network has on his utility. The bigger the number of people that make up his network, the smaller his capacity of direct control of his total investment in social capital. The 'weapon' of the individual is the choice of the social network he decides to be part of.

By introducing the influence of social forces on the individual's behaviour, Becker believes he has taken a step forward in the direction of a realistic interpretation of human behaviour. Rational choice is not limited by a lack of information. Behaviour is not influenced by two independent forces - preferences and limits of information - but only by preferences, which are modified by social and personal capital. Thus, these resources that until now economics had not taken into consideration reinforce the individual rationality.

James Coleman has a very similar theoretical project; he seeks to introduce the 'engine of action' (the "economic rational choice of self-interest") into the social structure. However, in order to reject the extreme individualism that "often accompany it", he thinks it is necessary to introduce social structures "into the rational action paradigm" (Coleman 1984). And for this goal he regards the concept of social capital as a very useful one.

According to Coleman, social capital is determined by changes in the relations among people, which produce an improvement of the results of their actions. Like the chair, defined not by his form but by his utility as chair, “social capital is defined by its function”. Social capital, in fact, “is not a single entity but a variety of different entities, with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors... ” (*ibid*, p.98). Social capital is capital because it makes possible the achievement of goals that would not otherwise be produced.

The flexibility of his definition brings Coleman to the necessity of getting many examples (Piselli, 1999). In these examples, social capital has different characteristics. Sometimes it is a public good, like in the example of a school association of parents that produces benefits also for parents of the same school who do not participate to the association. In other examples it is a private or club good with positive externalities (example of clandestine students). In addition, the planned hierarchical organization of a company is a form of social capital, too.

In conclusion, the individual can use many forms of social capital: his private social capital and social capital as public good in the measure he manages to use it in order to improve his utility.

This individualistic approach applied to social capital can be better understood if we analyse a totally different theory (Pizzorno, 1999). Here the individual is altruistic; no apparent self-interested rational choice is observable in his behaviour. Pizzorno’s social capital develops through social relationships that do not need reciprocal identification because they are based

on an altruistic behaviour. The underlined concept is that of universalism and of behaviour 'according to conscience' Pizzorno explains how it can be created. Through socialisation processes in the family, in the school etc., every individual forms his principles for action. These principles constitute his identity. During his life the individual can enrich or weaken them, but he will not be ready to lose his identity. "... those principles will become the criterion which that person will continue to adopt in order to be able to recognise himself with his identity" (Pizzorno 1999, p. 386). Altruistic principles generate altruistic, universalistic behaviour that represents social capital.

*Altruism
is not
'relationality'*

This behaviour does not need other identification to be put into action than the internal recognition of the individual. For this reason, the individual does not need to know the identity of the other person to behave altruistically. He does not need to be reciprocated; the reciprocity happens as an internal recognition that the individual has of his identity. Both the unnecessary identity of the other person and the unnecessary reciprocity express a clear characteristic of this theory: it is an individualistic theory of social capital. In fact, if there is not a psychological egoism (related to self-interest), there is a philosophical egoism: the expectations of maximization of own utility function. "Rational actors' motivation has to do only with utilities and preferences" and "more utilities is better than less". There is no difference whether the individual is "selfish sods or ardent altruistic" (Hollis, 1998).

Altruism is not 'relationality'. Only the reciprocal identification makes

possible the reciprocity, which is the inner characteristic of the 'relationality'. "Also the dolphins - it is said - with gratuitousness help animals belonging to different species. But this is not 'relationality', because the latter postulates the taking in consideration of the identity of the other" (Zamagni 1999, p.732).

In recent years economic literature has given support to the exaggeration of this way of thinking. Some authors do not hesitate to speak of *economic* application to social capital, meaning an individualistic approach to it, as if to say that for economists only this way is possible (Glaeser, Laibson, Sheinkman and Soutter, 1999).

According to these authors, group-level social capital in a network is a "function of individual-level actions and attributes". An economic approach to social capital can only be an "analysis of the decision-makers who actually invest in social connection", the individual. As a consequence, their social capital definition becomes "...an individual's social capital is that individual's social characteristics - including charisma, status and access to networks - that enable that person to extract private returns from interactions with others" (*ibid*, p. 3).

According to Nan Lin (2001), the decision of establishing social relationships and being part of a certain social network is a decision of investing in order to obtain social, political or economic advantages. "Individuals engage in interactions and networking in order to produce profits" (*ibid*, p. 19).

Furthermore, social capital overcomes the social relation itself, because it develops into the network payoff. It becomes those resources that I can draw

off through that relationship. Social capital is not any more social relations or their characteristics and variations, but it is those assets and those resources that I can obtain through social relations: the goods of the people I am in relation to.

“Like human capital, it is an investment on the part of actor to increase the likelihood of success in purposive actions. Unlike human capital, which represents investment in training and other programs of activities to acquire skills, knowledge, and certifications, social capital is an investment in social relationships through which resources of other actors can be accessed and borrowed” (*ibid*, p. 24).

In other words, social capital is the network payoff, the amount of every kind of benefits that an individual can receive when he is inserted in a network. According to Nan Lin, the quantity of these profits is more or less big according to the social and economic rank of the people which compose the network I decide to be part of.

Social Capital as Characteristic of the Social Structure

The second group of theories sees social capital as a characteristic or a quality of the social structure and interpersonal relations. This characteristic can be represented by trust and trustworthiness. It is time now to differentiate various kinds of trust. In the contest of rational agents' behaviour, a first kind of trust is the one built on reputation. People offer trust to people who have reputation of trustworthiness.

Dasgupta (1997) identifies this kind of trust with social capital and with

the social mechanism that the managing of local common properties in developing countries is based on. In a local community people have the same rights and special bonds. Personal relationships are the central point of such a network, where trust and cooperation reinforce reciprocally. In these networks trust benefits from transitive propriety and produces personalized externalities. For this reason, according to Dasgupta, trust is not a public good. However, it is a fragile good. Reputation is the most important characteristic of Dasgupta's definition of trust and is built on the basis of a behaviour observable throughout the time. It is an asset in which people can invest renouncing to current profits in order to enjoy durable benefits. In this context it is important that one who is not trustworthy in a situation would be punished by the others excluding him from further economic contacts and contracts. In a social network, it is in the interest of everybody to behave according to the norms, if all do the same. Trust as reputation of trustworthiness, together with cooperation, is Dasgupta's definition of social capital. This social capital is an alternative way to the market for the allocation of resources, which is typical of a pre-market phase in developing countries. When such a trust network gets in contact with the market, the cost of punishment falls and as a consequence the capacity of that network in determining a cooperative behaviour weakens.

Reputation is created because of the benefits that the individual can receive from cooperation. When cooperation is not convenient anymore, then also trust has no reason to exist. In this situation it may be irrational to trust such a rational individual.

A second type of trust is based on 'disposition': a planned decision of trustworthy behaviour. If the rationality of trust as reputation is measured on the base of the single act, the rationality of trust as disposition has to be referred to the whole class of situations in which the individual will behave in his life. This kind of trust can be recognized in North's concept of institutions (North, 1990).

*Institutions
predispose
to trust*

Institutions predispose to trust or better they substitute it. They are the 'game rules' of a society, which generate regularities in every day life; in this way, they reduce the uncertainty rate of their actions. "Institutions exist to reduce the uncertainties involved in human interaction" and they "arise from incomplete information with respect to the behaviour of other individuals in the process of human interaction" (*ibid*, p. 25). Institutions represent a guide in social relations and vary from society to society. They represent voluntary constraints to action and, for this reason, they are complementary to rational choice. Individuals' "capacity of the mind to process, organize, and utilize information" is limited. At the same time "uncertainties involved in deciphering the environment" do exist. For this reason, "rule and procedures evolve to simplify the process. The consequent institutional framework, by structuring human interaction, limits the choice set of the actors" (*ibid.*). The individual behaviour is an integration of individual choices and institutions constrictions.

Thus, trust as disposition is the social structure itself that is collectively generated and represents at the same time restrictions on individual action, on

his rational choice.

In his famous book *Economic Action and Social Structure: the Problem of Embeddedness* (1985), Granovetter identifies a new analytical level in the 'embeddedness' of every person in his natural network of interpersonal relationships. In fact, the 'embeddedness' identifies a subject different from the rational, independent actor of neoclassic economics and also different from the over-socialized subject of the sociology who has passively interiorised social norms of the culture where he was born and has lived.

According to Granovetter, trust exists because every individual is inserted in his natural social network: family, school, workplace, neighbourhood, etc. Only this kind of trust can explain the imperfect markets where the laws of the perfect competitive market (deriving from the self-interest premise) cannot function.

Granovetter considers a kind of trust that is neither reputation, nor institutional accords that substitute trust but are not trust, like punishment of dishonest behaviour, nor natural conduct rooted in a generalized morality. Granovetter's theory explains the creation of trust as the normal consequence of natural human embeddedness in social relations. They penetrate economic life in an irregular way and in diverse measures producing trust among people, even if distrust and opportunistic behaviour is still present. Personal relationships can produce trust, and usually produce it, and through it they can have influence on economic choices. According to Granovetter, the possibility of distrust is a proof of non instrumentality of his definition of trust. Nevertheless, without further deepening, the category of 'embeddedness' does

not qualify a precise kind of rationality. It does not change the substance of rational choice. Trust is trust (third definition) only when it is kept on the basis of the promises it will keep. The 'embeddedness' seems not enough to this goal.

The theories of Granovetter, Dasgupta and North – in different ways – are still based on individualistic and instrumental rationality of behaviour. They consider, in fact, trust and social capital as characteristics of the social network, but this trust does not modify the *content* of the rationality of individual choice. In this way, the social structure simply prepares the parameters with which individuals make independent rational choices (Hollis, 1998).

THE COMMUNITARIANS

The neo-communitarian movement is composed of many and often contrasting voices (Amitai Etzioni, Charles Taylor, Michael Sandel, Michael Walzer). Also there are authors of social capital theories who are influenced by the communitarian approach (Putnam, Leonardi and Nanetti, 1993, Putnam, 1995, Fukuyama, 1996 and 1999, Bowles and Gintis, 2002).

The starting point of their research is the reality of a profound transformation of American society caused by the triumph of individualism. Many institutions of civil society are in crisis, like the family, the school and the church. As a consequence, the authors register a 'moral decline' that can be expressed as a proliferation of rights to which social responsibilities do not correspond. In order to reconstruct a civic culture split by individualism, communitarians confer to the intermediate institutions like family, school and

church the task of transferring the values which they consider the most important: civic sense, responsibility and ethic of work, and honesty.

The anthropological conviction that this approach has been built on is well defined: individuals and communities are reciprocally constituent. The community shows what the individuals are. Indeed, the relation of the individual to the community is not a choice; it is a discovery and it has to be discovered. The communitarian ethic is a relational ethic: moral capacity exists only inside the community.

Empirical analyses (Onix, 2000) show that many interpersonal relations are not instrumental and that these are in fact the most powerful in term of social capital. Indeed, social relations usually hinge on feelings and on the strength of links produced by the sharing of values and quality of behaviour.

In this context, these social capital theories are noteworthy because of the priority that they confer to social norms and culture as means capable of producing cooperation and consequently benefits. "...social capital is an instantiated informal norm that promotes cooperation between two or more individuals" (Fukuyama 1999, p. 1).

These social norms are a-rational (not necessarily irrational). The project of reducing human behaviour to the maximization of utility, according to Fukuyama, is an absolutely reductive process. People do not always search for their utility and in a rational way. They instead very often behave in an a-rational way because they do not calculate and do not choose the most profitable alternative. Their decisions are often oriented to the community (Fukuyama, 1995). This solidarity behaviour is dictated by the culture, and that

means by “inherited ethic habits and reciprocal moral obligations”. For this reason, behaviour and choices are not rational because they are consequence of norms that they have not freely chosen. In fact, community members passively internalise these “cultural capital” (Fukuyama, 1995).

If trust is a result of social capital, it is also the atmosphere of the moral community: the reciprocal expectation of predictable, correct and cooperative behaviour. For this reason, social capital differs from other forms of human capital since it cannot be acquired through a rational decision of investment, but it is built and handed on through transmission canals: religion, traditions and customs. Subsequently, according to Fukuyama, social capital is a particular kind of human capital, a personal acquisition favouring the community: social virtues, social pro-activeness. These virtues are more difficult than individual virtues to be acquired, but they are more difficult to be broken as well.

Fukuyama recognizes that ‘prosperity’ depends on rationality, but he affirms that it is not sufficient. Only cultural habits guarantee the proper functions of rational institutions (democracy, laws, etc). Moreover, rationality erodes social cohesion and trust and, as a result, it cannot take advantage of its potential benefits. Economic rationality has damaged in such a way “social cohesion that, perversely, they (the societies) cannot exploit the economic opportunities created by their rationality.... Whereas efficiency depends on the former (reason), trust depends on the latter (cultural capital)”, but “we need both”, says Fukuyama, “and prosperity depends on striking a balance” (Hollis, 1998, p. 3).

This is the point: if trust is an expression of habit and social norms, it is easily damaged by rationality.

Also Putnam studied the connections between social capital and the performance of the political institutions. Summing up, Putnam's social capital definition is represented by civil virtues embedded in a social network ('civic community') and the fruits of the cooperation that they bring, in particular the functioning of the institutions of the democracy. In this context organizations play an important role. They disseminate among the participants the disposition to cooperation and that means civil virtues: solidarity, social engagement, trust and participation in public life. In brief: organizations build the civic community, social capital. For this reason, the higher the number of associations and the participation in them on the part of the citizens, the stronger social capital and cooperation aimed at mutual benefits will be.

*Which kind
of association
creates social
capital?*

Sharing Granovetter's (1973) thought, Putnam (1993 and 1995) affirms that weak links are more important than familiar relations (strong links) in order to create cohesion inside the community and in the solution of dilemmas of collective action. This is the reason why networks of civic engagement are so important. But which kind of association creates social capital? Putnam (1995) identifies the decline of American social capital with the diminution of the traditional forms of civic organizations, like the Boy Scouts and the Red Cross. Bowling has become an individual game as well. In these kinds of associations

personal contacts and reciprocal obligations are built. The new form of participation to mass organizations like environment and feminist associations do not provide the opportunity of meeting among members and for this reason do not generate social capital.

In Putnam (2001) a development of his social capital concept is evident. Social capital has now also an individual aspect, a private as well as a public characteristic.

“...the core idea of social capital theory is that social networks have value. Just as a screwdriver (physical capital) or a college education (human capital) can increase productivity (both individual and collective), so too social contacts affect the productivity of individuals and groups” (*ibid*, pp. 18-19).

Another enlargement regards the ‘specific’ reciprocity. For example: I do this for you now in the confident expectation that somebody else ‘down the road’ will do the other for me. This is now accepted as a kind of social capital, even if generalized reciprocity is still the best form of social capital:

“A society characterized by generalized reciprocity is more efficient than a distrustful society, for the same reason that money is more efficient than barter. If we don’t have to balance every exchange instantly, we can get a lot more accomplished. Trustworthiness lubricates social life. Frequent interaction among a diverse set of people tends to produce a norm of generalized reciprocity. Civic engagement and social capital entail mutual obligation and responsibility for action. ... Social networks and norms of reciprocity can facilitate cooperation for mutual benefit” (*ibid*, p. 21).

Putnam recognizes the negative aspects of (this communitarian approach to) social capital seen with the eyes of liberals: it can damage individual

opportunity and liberties, and in it social inequalities may be embedded. Furthermore, there is the problem of exclusion: "Norms and networks that serve some groups may obstruct others, particularly if the norms are discriminatory or the networks socially segregated". However, he believes that costs and benefits have still to be calculated and that progress "requires ideas that bridge outdated ideological divides" (Putnam, 1993, p. 42).

**A REINFORCING OF THE TWO POSITIONS:
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In the last number of the *Economic Journal* 2002, Bowles and Gintis (*Social Capital and Community Governance*) develop this position. They express the explicit goal of bringing the economic analysis behind the notion of *Homo economicus* and think that the concept of social capital can help in this objective.

"The social capital boom reflected a heightened awareness in policy and academic circles of real people's values, (rather than the empirically implausible utility functions of *Homo economicus*), of how people interact in their daily lives, in families, neighbourhoods, and work groups, not just as buyers, sellers, and citizens, and of bankruptcy of the ideologically charged planning-*versus*-markets debate" (ibid, p. F420).

In name of these *real people's values* and with the precise aim of giving to the expression 'social capital' its real meaning, they propose of substituting the term 'social capital' with 'community governance' which would better capture the specific identity of social capital. In fact, social capital does not refer to what people possess (capital), but to what the group is able to do (governance). While 'capital' can be possessed also by a single individual, the

'community governance' can only be identified in relation to the group.

"By community we mean a group of people who interact directly, frequently and in multi-faceted ways. People who work together are usually communities in this sense, as are some neighbourhoods, groups of friends, professional and business networks, gangs, and sports leagues. The list suggests that connection, not affection, is the defining characteristic of a community" (*ibid*, p. F420).

The community has a complementary function in respect to the State and the market. It solves problems which "otherwise appear as classic market failures or state failures". Some local public goods would be insufficient. Instead, in the community there are risk-sharing opportunities, reciprocal insurances, and access of the poor to credit markets.

On the background of this "social structure approach" of social capital, the behaviour and the choices are moved neither by *homo economicus* egoistic preferences nor by altruistic preferences. There exists an innate "human proclivity for enforcing group norms, even at a cost to oneself" (*strong reciprocity*). "An extensive body of evidence suggests that a considerable fraction of the population ... are strong reciprocators" (*ibid*, p. F425). Strong reciprocators are individuals who are ready to cooperate and also to punish the non-reciprocators and anti-social actions of others. This behaviour is an emotional answer that follows a 'feeling of anger'. At the same time, the punished members do not change behaviour because they want to avoid others' loss, but because they feel shame and this emotional reaction "is part of the effectiveness of punishment". For this reason, we can say that, according to Bowles and Gintis (2002), the effectiveness of the punishment is a consequence

of two different emotions.

In attempting to avoid the individualistic rational instrumentality, the authors fall in the a-rationality of a behaviour that expresses an emotional answer: a feeling of anger or humiliation. Exclusion of outsiders is also inevitable, because it is enclosed in their concept of community.

In the same number of the *Economic Journal* also the opposite position has been crystallized (*An Economic Approach to Social Capital*, Glaeser, Laibson and Sacerdote, 2002), proposing the individualistic approach as the economic approach to social capital.

In order to explain the way in which social capital is formed, the authors use the traditional, neoclassic model of investment in physical and human capital motivated by rational choice. The 'normal' implications of this model are confirmed: investment in social capital grows and then falls with age, and is inversely related to mobility. Individuals who work in positions where social capital is important accumulate more social capital than others. The person who invests in human capital invests also in social capital.

However, one contradiction is evident. Individuals with elevated salaries are those who have a high evaluation of time and should not be interested in investing in social capital which is a time intensive investment. However, the authors found that such people often have high level of social capital. The authors do not emphasize this result, but an explanation of this paradox can be found only if we weaken the strength of the instrumentality of social behaviour (Gui, 2000, 2002). In explaining this concept, Gui writes:

“ ... the value of an interaction does not always lies in the fact of being instrumental to the achievement of another goal, or to be an intermediate phase for something other which is the only one having meaning in itself. In every interaction there is also a dimension that in economic language could be named ‘consumption’ Obviously, this expression does not necessarily put on the same rank material satisfactions (more often associated to it) with moral, affective and also spiritual satisfactions” (Gui, 2002, p. 37).

Relational goods, according to Gui, are output of the meeting. This output is untouchable. Sometimes it can be the reason for the meeting, as in a leisure club where the most important output is the reciprocal entertainment and the enjoyed company. In other meetings, instead, a consumption output is difficult to be identified because the reasons of that meeting are different (the board of directors of a company), but it is present.

Where is the difference between a nursery service made from a perfect robot and that carried out by a human person? “The consumption relational good is that ‘more’ which is created in the procedure with human interaction, in comparison to the non-human procedure” (*ibid*, p. 42). In general, then, the ‘relational goods’ are “goods of affective nature generated in the interpersonal interactions and consumed from the involved people” (*ibid*, p. 40). It is a ‘good’ because it contributes to the well being, but it is not expression of an instrumental social relation. It could be called ‘public local good of relational nature’.

The incapacity of the traditional model of taking into consideration these kinds of goods is one of the paradoxes of social capital theories based on the methodological individualism. In fact, they handle interpersonal relationships without handling them and that means without having the instruments

necessary to discover what they really are.

THE WE-RATIONALITY

I have tried to show that every social capital theory is built on one of the two fundamental approaches of social sciences: individual rational choice or communitarian a-rationality. Both have limits and, for this reason, social capital theories are unsatisfactory, too.

We need both, rationality and trust. Economic rationality-in-relations is irrational without trust (The enlightenment trail, in Hollis 1998). However, rationality and trust seem to be irreconcilable. In fact, the traditional trust (based on inherited habits and reciprocal moral obligations) is damaged by rationality and the modern trust as reputation makes it irrational to trust rational people.

Starting from a definition of trust as the simple capacity of keeping a promise only because we made it, we need “a defensible definition of reason which makes it rational to trust rational people” (Hollis, 1998, p. 44). For this aim, it is necessary to consider the possibility of a variation of the *content* of the rationality.

The *we-rationality* of Hollis and Sugden (Hollis and Sugden 1993, Hollis 1998, Sugden 2000) can be considered an example of this operation. *Trust within reason* and *Team preferences* are respectively the goal and the path of this intellectual attempt. To re-think about the nature of rationality in order to reach an interpretation of it, according to which the sociability is rational, is the project of the two authors. The task is possible if it is used a concept of

trust that is the expression of a reciprocal relation: a *we-rationality* that overcomes *self-interest* and "... a theory of trust which can make it rational to repay trust, even when this is contrary to self-interest" (Bruni and Sugden 2000, p. 26).

In order to reach this objective, it is not enough to exchange self-interest (preferences) with altruistic individual preferences, as we saw in Pizzorno's theory. Characteristic of the *we-rationality* is the fact that elements of 'relationality' and reciprocity enter the objective function of the individual altering it to a utility function of the team. In some circumstances individuals find themselves in situations in which it is rational to have *team preferences*. At the heart of a team that can be considered a real agent with its own preferences, is the individual's decision to "taking themselves to members of it". In the background of the rational choice, Sugden builds a team rational choice theory as a 'team-directed decision problem'. He starts from a cooperative game where every player of a set of individuals A_1, \dots, A_n has at his disposition a set of alternative strategies from which he has to choose one. An outcome corresponds to every set of chosen strategies (one for every player).

" If to each array of strategies we were to assign, in place of an outcome, an *array* of utility indices, one for each individual, we would have a normal-form game... But suppose instead that we define a *team-directed utility* function $t(\cdot)$ which, to each outcome x , assigns a single utility index $t(x)$, to be called 'team-directed utility'; this is to be interpreted as a representation of *team-directed preferences* over the relevant outcomes" (Sugden 2000, p. 192).

The players have only one preference scale, the team-directed preferences and on this basis everybody will choose that which, together with the others, will maximize the unique group's utility. This is the difference from the classic individual rationality; team-directed preferences bring to say: 'It would be good for us if we did...'

Team preferences are not a substitute for individual rational choice, but they represent a way and a moment of individual behaviour, when one individual interacts with other individuals (Sugden, 2000).

In this way, Sugden does not exclude the importance of the behaviour that follows an individual preference, but he overcomes the methodological individualism as an exclusive approach to the rationality of human behaviour. He also avoids the outdated collective a-rationality of the communitarians. First of all because of the possibility of a individual preferred choice and, secondly, because the individual makes the decision of being part of a team, as well as in the case when a single individual were alone in doing it in this way:

“...if $t(.)$ is interpreted as a measure of the common good, unilateral team-directed reasoning by one individual could be interpreted in Kantian terms, as his acting on a maxim that he could will to be a general law” (*ibid*, p. 194).

However, to be a member of a team is more than taking an unilateral action. It means to have confidence that the others will also handle the situation in the same way in order to reach the same goal.

“At the level of the team, team preference is a ranking of outcomes which is revealed in the team's decisions. (...) This implies that every individual (...) has

the same team-directed preferences over the possible outcomes (...) and engages in team-directed reasoning, relative to this common set of team-directed preferences. Thus (...) the combined effect of the choices of the members of the team will be to bring about the outcome which (...) is most highly ranked in terms of the team's preferences. (...) In this sense, it is meaningful to talk about the team as an agent in its own right. There is nothing ontologically mysterious about this" (ibid, p.197).

We can probably affirm that, on the contrary, this choice is ontologically well founded, as it is moreover confirmed by the fact that Sugden's theory starts from his life experience: the family decision about the place of his summer holiday.

CONCLUSION

During the last 15 years, the social science literature on social capital has had a parabolic increase. Many economists are interested in social capital with the aim of integrating social capital in the already existing theoretical framework. They hope to find in it that 'missing link' which should be able to improve the explicative and predictive capacity of neo-classic economics (van Staveren, 2002). Social capital becomes important not because of its merits but since better alternatives are missing: market failures are more frequent and significant than simple exceptional malfunctions of its optimal performance. Moreover, the government is not able to operate in order to correct them (Bowles and Gintis, 2002).

However, social capital is object of interest also for another group of economists and social scientists who, instead, use this concept with the hope of finding in it a valuable critic to the mainstream economics. Cooperative social

relations bring to cooperative behaviour, which is different from a self interest behaviour (Krishna and Uphoff, 2002).

Today many economists of development make research on social capital. Social capital is discovered and valued as resource particularly precious for those countries which do not have sufficient physical and human capital. The interest started as a consequence of an empirical observation: different levels of economic development exist, even when the stream of investments, the productive structures and infrastructures, the technology and the human resources dotations are similar. Other factors different from financial, physical and human resources must play a role. Social capital seems to be a kind of new paradigm for development (M. Woolcock, D. Narayan, 2000).

However, the theories developed up to now are insufficient. The problem, as I have tried to illustrate in this article, is to be found in the kind of economic rationality (or no-rationality) that can be easily discovered behind those theories.

I have given some elements of Hollis-Sugden *we-rationality theory* and sustained that it could become the base on which to construct a new theory of social capital. It would be ontologically founded. For this reason, such a theory has the potentiality to become a common approach for the study and measurement of social capital in different areas and cultures. Its possible causation relation to development, which means its potentiality as of being capital and resource, could become object of a serious verification.

In this case the route would be finally opened for social capital to be taken into consideration by the political economy of development.

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