The Market for Social Capital

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Is there creative destruction in society as well as in the economy, with the new driving out some of the old?

Capitalism's negative effects on social ties have long been part of the anti-market arguments of both Right and Left, from 18th century criticisms of the emerging market society by conservatives and romantics to Karl Marx in the 19th century denouncing the 'unconscionable freedom' of free trade, leaving 'no other nexus between man and man than naked self-interest, than callous "cash payment"'.[1]

So strong has the nexus between far Left and conservative Right become that, in the latest of John Carroll's anti-capitalist jeremiads, the Melbourne conservative cites not any of his conservative forebears, but Karl Marx's *The Communist Manifesto*, claiming that 'just at the moment Marx was ditched, his powerful analytical polemic gained renewed bite'.[2]

Alongside critiques from Left and Right, we have seen a recent upsurge in less ideological studies of social ties, involving extensive survey evidence and examination of the social mechanisms behind human affiliation and cooperation. Much of this work centres on the idea of social capital, defined in one Australian survey of the literature as 'social relations of mutual benefit, characterised by norms of trust and reciprocity'.[3] This research provides a good context in which to revisit the issue of capitalism and social ties.

Why social capital matters

The most prominent participant in social capital discussions has been a Harvard academic, Robert D. Putnam. While he first made a name for himself with his excellent 1993 book about Italy, *Making Democracy Work*, it was his 1995 article 'Bowling Alone: The Decline of American Social Capital'[4] that brought him to national and international prominence. 'Bowling alone' was a metaphor for changing American social relations. While as many people as ever went bowling, fewer of them did so as members of bowling leagues. Bowling no longer had the capacity to create social connections that it once did.

The 1995 article examined a range of indicators pointing to a decline in social capital and suggesting causes. The article struck a chord, but not everyone was convinced.[5] Putnam's 2000 book, *Bowling Alone: The Collapse and Revival of American Community* is an elaboration of his argument and a response to his critics.[6]

Overall, Putnam presents the most compelling case I've seen that social capital has declined, and that counter-trends, such as social connections via the Net are not, as yet at least, enough to compensate for other losses.

In the 20 years from 1973-74 to 1993-94 the proportion of Americans who served as an officer of a club or organisation or worked for a political party each declined by 42%. Numbers attending public meetings dropped by more than a third (45). Between 1975-76 and 1999 the average number of club meetings attended per year went down from twelve to five (61).

Declining social participation is not restricted to clubs and associations. The average number of times per year people entertain at home reduced from the mid-teens in the early 1980s to about eight in the late

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1990s (99), and this has not obviously been compensated for with more socialising in the usual public places, with the proportion going to bars or taverns dropping by at least 30% since the 1970s (49), and the number of dine-in food outlets per 100,000 population on a significant downward trend (102). Just in case anyone might assume that people's time was being spent on other activities missed by the survey organisations, time use studies confirm that less time is being spent on informal socialising (108).

Showing why these trends matter is not as easy as it might first appear. While high social capital does, as will be shown below, have a tendency to appear with good social indicators, we must beware the social science maxim 'correlation is not causation'. It could be that the good social indicator causes the high social capital, or both are driven by a third factor, or it is just coincidence. Putnam is very aware of potential criticisms along these lines, and devotes an appendix to them (415-24). His major argument, apart from pointing to statistical methods used to control for various other factors, is that the sheer weight of the evidence is significant. Overall, I find his case for the importance of social capital cumulatively convincing, with the evidence coinciding with plausible theories across many areas of social research.

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Putnam shows a strong correlation between high social capital and positive outcomes for children such as low death rates, being in an intact family, staying in school and not being in trouble with the law. Low social capital is second only to poverty in its negative effects on children (297). Schools work much better in high social capital areas, with informal social capital being more significant than participation in formal associations. A possible explanation is that people in high social capital states are more engaged with their children, and help maintain discipline and focus (300-302).

Health, too, seems strongly correlated with high social capital. There are several theories explaining the link between health and social capital. Social networks provide practical help in caring for ill people, from noticing when something is going wrong to providing convalescent care. Social networks are also thought to promote healthy norms, with socially isolated people more likely to smoke, drink and overeat. Also, there is now research showing that social isolation has measurable biochemical effects on the body, with loneliness weakening the immune system and increasing blood pressure (327).

Social capital is also associated with lower crime. Again doing a state-by-state analysis, Putnam finds that states with low social capital tend to have high homicide rates, with social capital being 'more important than a state's education level, rate of single-parent households, and income inequality in predicting the number of murders per capita during the 1980-95 period' (308).

The American propensity for conducting surveys provides another measure, with one poll asking respondents over decades whether they agreed or disagreed with the proposition 'I'd do better than average in a fist fight'. Again, we see the same state-by-state correlation, with the more pugnacious states also being lower in social capital. Putnam suggests that these findings might be due partly to so-called 'neighbourhood effects', in which the behaviour of individuals is strongly affected by their peers (310-318). In high crime areas, the social capital may be 'bad' social capital, because it encourages harmful behaviour among people who would turn out better in a more positive environment.

Economic prosperity is also linked to social capital. As Putnam remarks, 'economists have developed an impressive body of research suggesting that social ties can influence who gets a job, a bonus, a promotion, and other employment benefits' (319). To get a job, 'weak ties' with acquaintances are often more useful than 'strong ties' with family and friends, because family and friends tend to have the same sources of information as the job seeker. Ethnic groups have been particularly adept at using social networks to establish themselves economically, which is why they often end up being clustered in particular industries. Other writers point to the way social capital reduces transaction costs by removing the need for costly monitoring and enforcement of business agreements.[7]

Finally, since for some political philosophies happiness is the end goal, Putnam reports that the most common finding from research around the world into life satisfaction is that 'happiness is best predicted by the breadth and depth of one's social connections' (332). Those who are involved in the community tend to be happier, though it seems they can have too much of a good thing, with people attending club meetings more than once a month being slightly less happy that those going less frequently (333).

Gains and losses

Bowling Alone explains well why social capital is important and shows that it has been declining over time. If its demise is linked to the market, as leftists and conservatives suppose, then that is a problem.

Putnam, however, dismisses this argument in less than a page of a 100 page section on why social capital is deteriorating. He does express concern about the replacement of locally run shops and firms with 'far-flung multi-national empires' because of the loss of civic commitment from business leaders (283). Nevertheless, he says it is hard to see how that could affect willingness to socialise. Another important problem is that the timing isn't right: 'America has epitomized market capitalism for several centuries, during which our stocks of social capital and civic engagement have been through great swings. A constant can't explain a variable' (282).

One of the most obvious changes to Western life in the post-war period has been the rising number of women in the labour market.

Even as someone who believes markets ought to be allowed to operate more freely than they do, I think this is a bit too quick. It is deeply counter-intuitive to believe that economic activity does not affect social relations, and by logical implication that different ways of organising the economy do not affect social relations in different ways. It is worth considering those effects.

One line of thought, expressed recently with historical examples in John Mueller's *Capitalism, Democracy and Ralph's Pretty Good Grocery*, is that markets actually create large amounts of social capital.[8] The reason for this is that markets create material incentives for pro-social behaviour. If social capital creates prosperity, for the networking reasons discussed above, then individuals have an incentive to create and maintain those networks.

For individuals wanting to participate in a market economy, a reputation for trustworthiness is also very valuable, because it increases the number of people prepared to do business with you. Since people tend to believe that others have a consistent character, and that untrustworthiness in one realm of life is indicative of potential untrustworthiness in others, the need to create a positive reputation in business has positive spillover effects into the broader society.[9]

Markets are likely to also have positive though indirect effects on social capital by poverty-reducing economic growth, that in turn reduces the distrust that can come from poverty, which in turn stops the narrowing of networks that is the logical consequence of not trusting. Australian evidence does show that poor areas are less trusting than wealthier areas. In the Australian Community Survey, carried out in 1997-1998, 57% of people living in the poorest 25% of areas scored positively on a scale of trust compared to 71% in the top 25% of areas. The problem was much worse in urban areas, with only 35% of people in the poorest urban areas receiving positive scores.[10]

One argument explaining this distrust is that people on low incomes have more to lose in any given transaction, since the consequences of mistakenly trusting someone are greater than for those with other resources to fall back on. The Australian Community Survey found that lower levels of trust were reported by people expressing higher fears of crime, greater concern about unemployment, and a lack of facilities for the poor. Even in the absence of bad experiences, poor people are perhaps prudently less trusting than wealthier people.

Another argument, not mutually exclusive with the first, is that trust is a learned attitude. Experiencing others as trustworthy increases trust, experiencing them as untrustworthy reduces it. Reducing poverty, historically most effectively done through market economies in which wealth is spread widely, alleviates these sources of distrust.

The paradox of working women

The market does seem to have direct and indirect positive effects on social capital, but does it detract in other ways? One of the most obvious changes to Western life in the post-war period has been the rising number of women in the labour market, giving them less time to devote to social capital building family and community activities. For many women this is due to perceived financial necessity rather than for personal satisfaction, with Putnam's figures putting the proportion at just over 10% of women working for satisfaction and more than 35% for the money (198).

This is a paradox. Despite generally rising purchasing power, more women see a 'financial necessity' that drives them into the labour market. The explanation could lie in the entrepreneurial nature of market economies, creating a continual stream of new goods and services that are attractive to women who work to purchase them.

A further explanation lies in the link between material goods and social status. While this link is drawn by the Left as well in their desire to eliminate relative as well as absolute poverty, it is implicit in much capitalist marketing, as advertisers seek to link their product with prestige, fashionability and celebrity. People are most sensitive to the status of those around them. The economist Robert Frank, who has done much interesting work on status, quotes the American social critic H.L. Mencken defining 'a wealthy man as one who earns $100 a year more than his wife's sister's husband'.

The dollar values have changed since Mencken wrote in the first half of the century, but the observation was shown in the 1990s to be remarkably perceptive, with an economic study of American sisters showing that a women was 16 to 25 times as likely to seek paid employment if her sister's husband earned more than her own.[11] The growing class of affluent people almost certainly creates more unfavourable husband comparisons, and increases the number of women in the workforce.

Putnam believes that rising numbers of female workers has caused a loss of social capital, though he thinks this explains less than one-tenth of the total loss (202). He sees working women as a double-edged sword in the creation and loss of social capital, increasing opportunities for making new connections while leaving less time for exploring them.

He believes that, from a social capital point of view, the 'golden mean' is working part-time, particularly those women who work part-time for personal satisfaction rather than financial necessity. Those women attend the greatest number of club meetings a year, more than full-time homemakers (200). The fact that many women work part-time has reduced the social capital losses that might have occurred with a larger rise in full-time employment.

In Australia, as in America, the actual annual number of hours women work over the last 30 years has not increased as dramatically as might have been thought, with the proportion here working full-time increasing modestly from 28% in 1968 to 33.5% in 1998, while the proportion working part-time nearly doubled.[12]

Perhaps, though, Putnam underestimates the social capital loss because added household wealth and less female time is seeing the contracting out of goods and services once produced at home. As the leftist Humphrey McQueen recently put it in *The Sydney Morning Herald* 'Burger King displaces a backyard barbeque; families drink Pepsi, not homemade ginger beer; children play video instead of parlour games.'[13]

One possible danger to social capital here is that all these market purchases are, by the nature of a market exchange, restricted in their scope. By paying money, the consumer is exempted from further reciprocation. In a non-market provision, the provider adds to what the American writer Tom Wolfe calls their 'favour bank', and what we might call social capital.

Households are less self-sufficient than they were before, but they are still the site of much social capital accumulation, as goods purchased by a member of the household are generally not distributed according to 'market' principles. Families are much more likely to distribute goods on the basis of need or affection than as an exchange. Another way of looking at it is that social capital is still generated, but household goods and services are generated in other ways.

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Is television the culprit?

A further possible cause of lost social capital due to capitalism is TV. While of course TV has existed in non-capitalist countries, in capitalist countries there was a much larger incentive to put on programmes people actually wanted to watch, and through advertising revenues a way to pay for them to be delivered free-to-air.

Putnam thinks television is bad for social capital, amounting to around a quarter of the loss between 1965 and 1995 (229). He puts this down to the amount of time it consumes, psychological effects such as making viewers more passive and less alert, and the anti-civic content of some programmes (237-246). He believes the timing fits in blaming TV since the decline in American social capital did not begin until after a decade of television.

Also, there is an unusual case study involving three towns in northern Canada that in the early 1970s were similar in most respects, including the absence of TV. The one that did get TV, in 1973, experienced a decline in civic involvement the other two did not (235-236).

While TV must take some of the blame for lost social capital, it probably also helped compensate for that lost from other sources. A night at home watching TV is probably better spent than a night alone at home doing nothing at all, or at a dreary meeting of a voluntary association in decline. Arguably, too, TV's pervasiveness has given very diverse countries cultural experiences and references shared by large sections of the population.

There is mixed evidence on capitalism's effects on social ties at the micro level, but how does it all add up at the national macro level? Results from the World Values Survey (WVS) carried out in many nations in the early 1990s show no consistent highly marketised / lightly marketised division of opinion on the importance of family and friends.[14]

Similarly, WVS surveys of the proportion of the population in a wide variety of countries who trust others shows that most high trust countries are capitalist, which is not what you would expect if markets undermined trust.[15] Many of the wealthy countries are also historically Protestant, and perhaps they are slowly depleting their Protestant religious heritage, but this would not explain how, in a number of West European countries, trust of others rose considerably between the WVS of 1981-83 and 1990-93[16] during a time of declining religiosity and increasing use of markets.

Conclusion

While I have covered only a sample of the interactions between the economy and society, my examples indicate that the relationship is not simply a destructive one. There may be social capital losses through capitalist pressures for women to enter the workforce, through the market crowding out more communal sources of goods and services, and through TV supplanting social life. There also seem to be social capital gains from the the pro-social behaviour needed for long-term success in the market and the easing of distrust-inducing poverty. The net effect, from the macro figures cited above, is not obviously or consistently negative. It is perhaps more like the 'creative destruction' observed in the economy itself, with the new driving out some of the old.

Endnotes

1 For a good overview of the history of thinking on capitalism and social ties see Albert Hirschman, *Rival Views of Market Society and Other Recent Essays* (New York: Viking Penguin, 1986).

2 John Carroll, 'Corporate Carnivores', *Australian Quarterly* (August-September 2000), 19.

3 Ian Winter, 'Major themes and debates in the social capital literature: The Australian connection', in *Social Capital and Public Policy in Australia*, ed. Ian Winter (Melbourne: Australian Institute of Family Studies, 2000), 29.

4 An online version can be found at: http://muse.jhu.edu/demo/journal_of_democracy/v006/putnam.html

5 For example: Everett Carl Ladd, *The Ladd Report* (New York: The Free Press, 1999); the controversy in *The American Prospect* http://www.prospect.org/archives/25/25-cnt.html.

6 Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000). Information can also be found at: www.BowlingAlone.com

7 Some examples can be found in Gary Sturgess, 'Taking Social Capital Seriously', in *Social Capital: The Individual, Civil Society and the State*, A. Norton et al. (Sydney: The Centre for Independent Studies, 1998), 70-71.

8 John Mueller, *Capitalism, Democracy and Ralph's Pretty Good Grocery* (Princeton, New Jersey: Princeton University Press, 1999).

9 The importance of reputation was evident to Adam Smith in the 18th century, see Jeremy Shearmur and Daniel Klein, 'Good Conduct in the Great Society: Adam Smith and the Role of Reputation', in *Reputation: Studies in the Voluntary Elicitation of Good Conduct*, ed. Daniel Klein (Ann Arbor: The University of Michigan Press, 1997).

10 Philip Hughes, John Bellamy and Alan Black, 'Building social trust through education', in *Social Capital* , ed. Winter, 29.

11 Robert H. Frank, 'Why Living in a Rich Society Makes Us Feel Poor', *The New York Times Magazine* (15 October 2000).

12 Australian Bureau of Statistics, *Australian Social Trends 1998* (Canberra: ABS, 1998), 111.

13 Humphrey McQueen, 'Karl's mark', *The Sydney Morning Herald*, Spectrum section (21 October 2000),1.

14 Ronald Inglehart, Miguel Basanez and Alejandro Moreno, *Human Values and Belief: A Cross-Cultural Source Book* (Ann Arbor: University of Michigan Press, 1998), Tables V5 and V6.

15 In Ronald Inglehart, 'Trust, well-being and democracy', in *Democracy and Trust*, ed. Mark E. Warren (Cambridge: Cambridge University Press, 1999), 91. This book is focused on the relationship between democracy and trust and so is somewhat outside the scope of this article, but it is a valuable addition to the wider social capital debate.

16 Hughes, Bellamy and Black, 'Building social trust through education', 226.