

IS SOCIAL CAPITAL REALLY THE CAPITAL IN TERMS OF ECONOMICS?

Abstract / Executive Summary. This paper examines the terms “capital” and “social capital” as economics categories based on scientific sources . The results, derived from a comparative analysis of the similarities and differences of social and physical capital, give grounds to assert that social capital, in part, can be considered as economic capital. Comparative analysis has been revealed that social capital has more differences than similarities with physical capital, understood as fixed and the most accepted form of capital in economics. There are reasons to assert that social capital, in particular as an intangible factor of development, is mostly similar with human capital than with physical capital.

Keywords: capital; social capital; physical capital; capital’s forms; economics; economic growth.

Theoretical Background

The following scientific sources serve as the basis for comparative analysis and can be split into two groups:

- (a) The fundamental studies on the concept of social capital are found in scientific monographs, works and papers authored by such western academics and researchers as Pierre Bourdieu, Wayne Baker, Gary Becker, James Coleman, Francis Fukuyama, Christiaan Grootaert, Nan Lin, Alejandro Portes, Robert D. Putnam, Richard Rose, Oliver E. Williamson, Michael Woolcock et al.;
- (b) Contemporary western academics and researchers such as Ben Fine, Partha Dasgupta, Patrick Francois, Dario Gaggio, Francisco Herreros, Reino Hjerpe, Jessica Kulynych, Dimitris Milonakis, Lindon J. Robison, Allan Schmid, Stephen Samuel Smith, Joel Sobell, Hans Westlund et al. offer a sceptical viewpoint on the concept of social capital concept and critically assess its provisions;
- (c) Theoretical results and findings on social capital are also contained in papers and dissertations from contemporary Russian and Ukrainian scientists and researchers such as S. I. Bandur, N. E. Horozhankina, O. A. Hrishnova, M. S. Doronin, E. C. Dragomirova, Y. K. Zaitsev, O. T. Konkov, O. O. Konev, A. V. Lantsman, N. I. Larionov, N. M. Lebedeva, D. V. Merkulova, R. Y. Mishin, D. D. Popov, V. V. Radaev, S. V. Raksha, S. A. Shtyrbul, O. M. Tartarko, M. Y. Feyzba, A. A. Ubeyvolk et al.

The review of literature produced a better understanding of different aspects of the concept, social capital, particularly as it relates to economics and economic development. Based on a comparative analysis of these resources this paper shares the scientific point of view that social capital plays an important role in economic and human development. This form of capital can be viewed as a non-economic factor that contributes to progress, both economic growth and the development of a society development as a whole. However, social capital, as a type of capital and economic category, remains up to now an under-researched area. Hence, the review of literature shows that there is a need for conducting research on social capital as a form of economic capital.

The paper's purpose is centred on a theoretical investigation of the concept of "social capital" as an economic category. To achieve this purpose, the following **objectives** are necessary:

- (a) Discern meaning of "capital" and "social capital" as economic concepts;
- (b) Conduct a comparative analysis between the characteristics of social capital and physical capital to identify their similarities and differences;
- (c) Appraise and clarify whether social capital is a form of economic.

Research methods / design / approach

Literature review is aimed at examining scientific sources connected with the concept of social capital such as monographs, papers, research findings etc. The application of this method will enable us to understand better the concept of social capital in particular it will help to answer the following questions: What have researchers and experts in this area already done? To what extent has social capital been examined as an economic category? What are the main criticisms of the concept? What are the problematic issues to investigate? Is it valid to include social capital as part of another form of economic capital? *Terminological analysis* is directed to clarify and summarize the approaches defining the terms "social capital" and "capital," terms that exist in economic literature and scientific dictionaries. *Comparative analysis* is applied to compare social capital and physical capital against chosen criteria in order to determine similar and different features and characteristics between these two different kinds of capital. It is expected that the comparative analysis results will enable us to draw conclusions in light of the paper's research about the key purpose of which is to ascertain to what extent social capital can be considered as capital in terms of economics.

Introduction

The term social capital has currently attracted more and more attention from academics and researchers, particularly since the publication by Robert Putnam *Making Democracy Work* (1993) in which the concept of social capital explained the differences in economic and governmental performance between the Northern and Southern regions in Italy. The author concludes that social capital is a primary factor that contributes to economic growth and society development. Putnam's research results are based on the fact that in regions where social relations and networks are better economic performance indicators are also better.

Many researchers and academics, especially from Ukraine and Russia, agree with the scientific point of view that social capital has a positive impact on economic performance. In the empirical studies, they argue that social capital is a new and important form of capital. In contrast to those who support social capital as an economic indicators (P. Bourdieu, J. Coleman, W. Baker, R. S. Burt, F. Fukuyama, C. Grootaert, N. Lin, A. Portes, R. Rose, M. Woolcock et al.), its opponents express criticism regarding the "missing links" in the concept's provisions. Thus, some of western economists and academics, such as P. Dasgupta, B. Fine, D. Gaggio, F. Herreros, R. Hjerpe, D. Milonakis, L. Robison, A. Schmid, M. Siles, S. Smith, H. Westlund et al., in their empirical studies challenge the correctness and validity of social capital as an economic category. They underline the fact that social capital has no common definition available and the fact that no measureable and reliable economic indicators exist. In contrast to other kinds of economic capital, social capital is intangible and invisible. The consequences of this phenomenon are what produce terminological uncertainty and academic debates on the concept, the number of which has only recently increased (Woolcock, Narayan, 2000: 243). Thus, is social capital really capital? If yes, to what extent can social capital be considered as capital in terms of economics?

Results and Findings

In the *Dictionary of Economics* (Rutherford, 2002), capital is defined as "durable goods capable of producing a stream of goods or services over a period of time; a factor of production distinct from land, the entrepreneur and the labour currently being used; a sum of money which is invested in a business enterprise; accumulated expenditures giving rise to higher subsequent incomes." According to Nicholas Mankiw (2011: 833), an American macroeconomist and Professor of Economics at

Harvard University, “*capital* is the equipment and structures used to produce goods and services.” In other words, capital consists of various objects, the common feature of which is its targeted usage for the production of goods, service delivery with the purpose of obtaining economic benefits. In the context of this paper, it is necessary to take into account the definition formulated by Vladimir Radaev, a Russian economist and sociologist, who generally understood the term capital as any “accumulated economic resource that is included in the processes of reproduction and value increasing by mutual conversion of its various forms” (Radaev, 2002: 7).

Without diverging into the ongoing academic discussions on defining social capital, the term capital in economics can be considered as a limited economic resource that can be accumulated, assigned, attracted and used in the economic process; resource that can reproduce and grow, acquire different forms, which can be converted into other forms; a liquid resource, which can be transformed into monetary form; factor of production, which (except for land) the owner can use at the present time; a durable good, which can produce goods or provide services for a certain period of time; amount of resources (money) to be invested into a commercial enterprise; accumulated expenses, which in the further lead to an increase in income or to the value that brings added value.

In the contemporary scientific literature, different approaches to classifying different forms of capital can be found. The basics of which are the following: physical capital, human capital, economic capital, social capital,; political capital, symbolic capital, cultural capital, and administrative capital (Radaev, 2002: 22–23). It is understandable that the above-stated list can be continued due to the today’s economic realities, which are characterized by the globalization process, and the expansion of high technologies that affect economic and business performances. As a result, it obviously leads to corresponding adjustments in the definition of capital that goes considerably beyond the scope of economy.

The term social capital that has appeared in scientific papers approximately three decades ago is evidence of how modern economic development depends on the influence of non-economic factors. When examined closely, the term social capital as an economic term, as the system of recognized and fixed rules (formal or legal, informal or social), institutions (governmental bodies, non-government organizations, private sector), links and relationships between them and economic agents, which are based primarily on understanding, gives social capital its institutional framework that facilitate economic agents united in social networks for the purpose of increased economic effectiveness.

Social capital becomes apparent in abilities of individuals and economic agents to interface and achieve a common set of goals. The process of interacting with economic agents in the certain structures and economic activities has given rise to the term social capital. It has resulted in specific relationships formed in social networks, all on a basis of the trust. Such relationships encourage social network members to contribute to the joint achievement of a certain goal. As a rule, the degree of each agent's outputs in the economic process is correlated with the level of a mutual confidence.

To identify similarities and differences between social capital and the capital as an economic category, it is appropriate to choose the most recognized by economists the form of capital, which is physical capital, and to analyze and compare its basic features and characteristics. The analysis results will enable us to determine to what degree social capital can be considered as economic capital. *Physical* (fixed, real or productive) *capital* is a form of capital, which is used directly in the production of a product (Nelson, 2009: 27). In other words, physical capital refers to a factor of production (or input into the process of production), means of production such as the supply of equipments, buildings, structures, machinery etc., which can be used to produce goods and provide services. The physical capital's important feature is that all tangible assets, fixed capital assets (except land) have limited exploitation that result from a wear and tear.

An analysis of the sources (Abakumov, 2004: 98-103; Minina, Mikhailov, 2002: 77-82) enable us to separate out the following features, which are inherent to physical capital: accumulation; factor of production; object to ownership and arrangements; the ability to conversion; investment resource; a source of incomes, profits; a durable usage resource; an object of risk; liquid. Based on the results derived from the analysis of scientific sources (Coleman, 1994: 300-325; Dasgupta, 2005: 2-21; Robison, Schmid, Siles, 2002: 1-21), form a diagram (see *Figure*). On the diagram physical capital and social capital are to be compared against the following criteria: embodiment; tangibility; origins (the ways of its creation); endurance (durability); productivity; property rights; possibilities to be measured.

Using information placed in *Figure*, the reader is able to sort out various features that are similar to physical and social capital. It is only *productivity* (physical capital is a factor of goods production or services provision; social capital's productivity consists in transaction costs reduction). Nevertheless, if comparisons are made with other criteria positions (see *Figure*), it can be founded that social capital and physical capital also have several different features and characteristics. Social capital has more similarities, though, not with physical capital but with human capital. For instance,

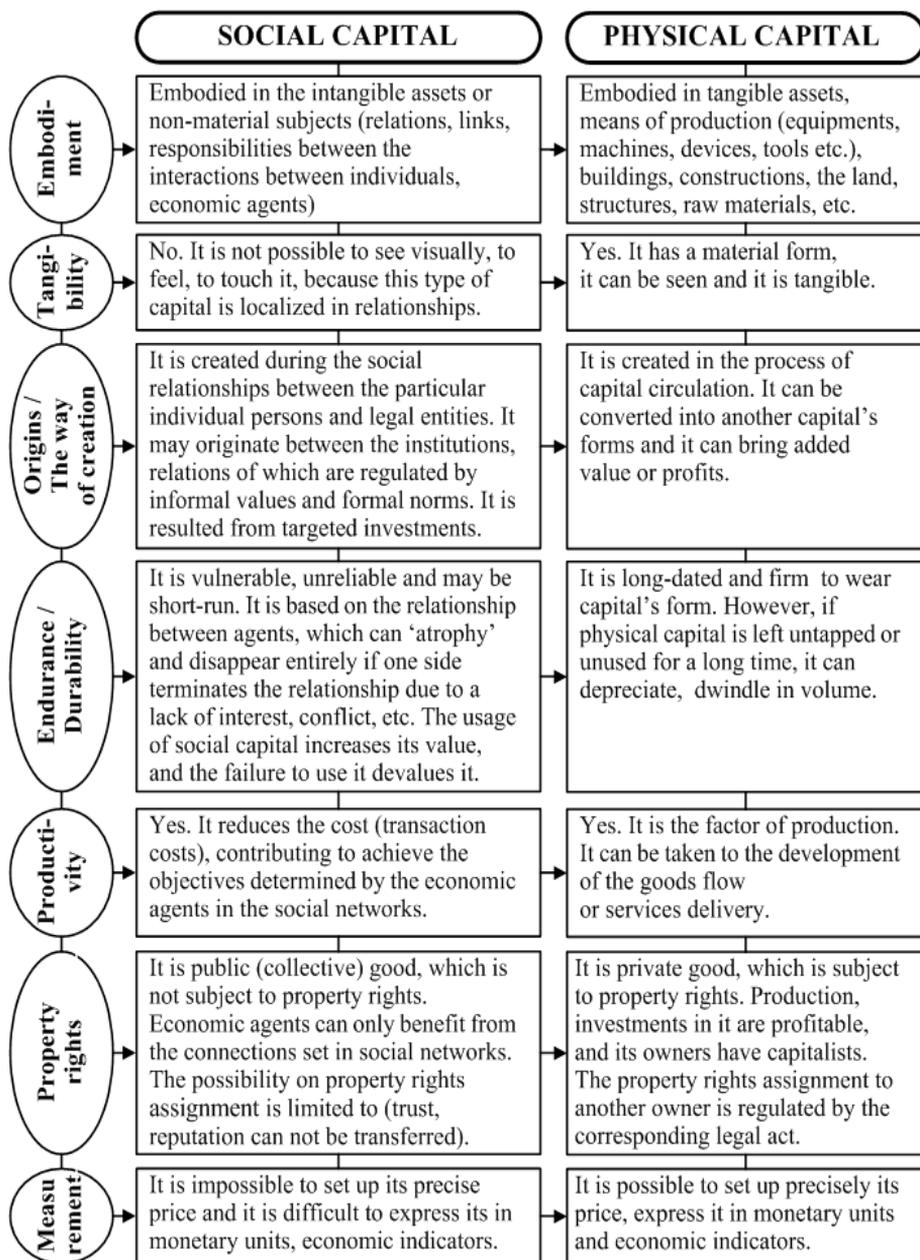


Figure. Diagram of the comparative analysis between physical capital and social capital (against some criteria)

both social and human capital are related with social and psychological dimensions that belong to a person, as skills, knowledge, and social values, which are less visible than physical capital (Coleman, 1994; Radaev, 2002: 22–23). Moreover, social capital is even less noticeable when compared to human capital, as social capital exists in the relationships between individuals and economic agents.

However, taking into account the above stated materials, social capital can be considered as a capital from an economic point of view because it has capital's features. In particular, social capital can accumulate and convert into another form of capital and facilitate profits. However, social capital, as physical and human capital, promotes economic cooperation and economic activities, as created in a team atmosphere based on the mutual trust and confidence oriented toward a specific common goal. A lack of social capital may lead to the fact that the usage of human capital becomes ineffective. The level of trust to some extent determines the social capital's quality and effectiveness in its usage. In this context, social capital with combination with other resources affects economy's effectiveness and efficiency. Thus, it can be assumed that the quality of social capital to some extent is determined by the quality of human capital in the certain economic or business structures.

Social capital is a specific form of capital that can be characterized by such properties, besides the above-listed, as *the inability to be private property* – it is a collective or public good; *the social nature* – social capital is resulted from relationships and interactions between individuals, economic entities; *social networks*, in which relationships between economic agents are formed and maintained; *informal rules and moral values* (trust, reputation, customs, etc.) that are the basis for consensus and mutual agreement in social networks, preconditions that contribute to achieve better results, the goals common set up by its members; can *reduce transaction costs* and, thereby, can *influence the economic development level*.

The feature that distinguishes social capital from other forms of capital is that it is not embodied in the specific economic and business objects or subjects, as it is created in relations between them. As social capital has a social nature, it exists in interaction between individuals. Social capital is a public good which means it cannot be privately owned. In other words, the ownership of this type of capital cannot be acquired or transferred to another person.

Conclusions

Based on the results derived from the above analysis of scientific literatures and comparative analysis, there are reasons to affirm that social capital can be to some extent considered as an economic category. Social capital possesses the features and properties that are inherent to capital as an economic term. In particular, social capital can be accumulated; it can undergo conversion into other forms of capital; it can contribute to bringing of economic benefits, and enhance productivity by reducing transaction costs. However, a comparative analysis with physical capital, the most recognized form of capital in economics, finds differences against the criteria (embodiment; tangibility; origins (the ways of its creation); endurance (durability); productivity; property rights; possibilities to be measured).

Nevertheless, social capital has a practical and applied value in the economy. The main reason being is the impossibility to measure social capital accurately and estimate and assess social capital's value to the market. Thus, social capital as capital can only be likened to an intangible economic factor, which has "invisible links" with economic agents and indirectly contributes to economic development that positively impact social development. There are grounds to assert, then, that social capital, in particular as an intangible factor of development, is mostly similar with human capital rather than with physical capital.

References

1. Abakumov, R. G. (2004). *Basic capital: the nature and definition under the current conditions*. The Belgorod Economic Bulletin. No. 3–4, pp. 98–103.
2. Akcomak, I. S. (2011). Social Capital of Social Capital Researchers. *Review of Economics and Institutions*, Vol. 2, No. 2, Article 5. 28 p.
3. Coleman, J. (1994). *Foundations of Social Theory*. Cambridge, MA: Harvard University Press. 814 p.
4. Dasgupta, P. (2005). Economics of Social Capital. *Economic Records*, August, Vol. 81, Issue Supplement S 1, pp. S2–S21.
5. Nelson, B. (2009). *A Comprehensive Dictionary of Economics*. Abhishek Publications. 182 p.
6. Mankiw, N. G. (2011). *Principles of Economics*. 6th ed. Harvard University, South-Western Cengage Learning. 888 p.

7. Minina, M. A.; Mikhailov, A. M. (2002). Economic nature of the basic capital. *The Samara State Academy of Economics' Young Scientists Bulletin*. No. 1. pp. 77–82.
8. Putnam, R. D. (1993). *Making Democracy Work. Civic traditions in modern Italy*. Princeton, NJ: Princeton University Press. 258 p.
9. Radaev, V. V. (2002). The concept of 'capital', the capital's forms and their conversion. *Economic Sociology*. Vol. 3, No. 4, p. 20–33.
10. Robison, L. J.; Schmid, A. A.; Siles, M. E. (2002). Is Social Capital Really Capital? *Review of Social Economy*, Vol. 60, Issue 1, pp. 1–21.
11. Rutherford, D. (2002). *Routledge Dictionary of Economics*. 2nd ed. London, Routledge, the Taylor & Francis Group. 691 p.
12. Woolcock, M.; Narayan, D. (2000). *Social Capital: Implications for Development Theory*. The World Bank Research Observer, No. 15, pp. 225–251.

Santrauka

Tatjana ŠAPOVALOVA

AR SOCIALINIS KAPITALAS IŠ TIESŲ YRA EKONOMINIS KAPITALAS?

Straipsnyje, remiantis moksliniais šaltiniais, analizuojama „kapitalo“ ir „socialinio kapitalo“ fenomenai kaip ekonominės ir išmatuojamos kategorijos. Mokslinių įžvalgų pagrindą sudaro sutapimų bei kriterijų vienodinimas bei bendrų kriterijų paieška. Autorė pagrindžia išvadą, kad socialinis kapitalas turi daugiau bruožų su žmogiškuoju intelektiniu nei fiziniu kapitalu. Lygindama šiuos fenomenus autorė ieško teorinių fizinio ir socialinio kapitalo sąsajų ir modelių bei formų išraiškų.

Esminiai žodžiai: kapitalas, socialinis kapitalas, fizinis kapitalas, kapitalo formos, ekonominis augimas.

Įteikta 2013 m. liepos mėn.

Pateikta spaudai 2013 m. rugpjūčio mėn.

Tatjana Šapovalova – ekonomikos mokslų daktarė, docentė, Vladimiro Dalio Rytų Ukrainos nacionalinio universiteto Darbo ir socialinių technologijų mokymo ir mokslinių tyrimų instituto direktorė; el.paštas: tatyana.shapovalova.2013@mail.ru.

Tatiana Shapovalova – PhD in Economics, Associate Professor, Director of the Educational and Research Institute of Labour and Social Technologies, the Volodymyr Dahl East Ukrainian National University (Luhansk, Ukraine); e-mail tatyana.shapovalova.2013@mail.ru.