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The importance and role of social capital in economic development

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Abstract

In recent years, social capital has been defined as institutions, the network of relationships between people, values and related norms, and its role in development and poverty reduction programs has increased significantly. In such a way, the concept of social capital as an important determinant in economic development has attracted growing attention among development economists. In other words, social capital is one of the basic factors of development. It is worth mentioning that no country can achieve sustainable economic development without basic . In general, the formation of more capital in the economy shows itself with greater economic growth and greater growth of total income. investment in human capital. The economic performance of social capital is through the reduction of transaction costs associated with formal coordination mechanisms such as contracts, hierarchies, bureaucratic rules, and the like. Social capital is an informal norm that enhances cooperation between individual social capital and strengthens people's understanding of themselves and the world. Social capital is necessary for the efficient functioning of modern economies, and social capital at the macro level includes different aspects of institutional quality and is closely related to income distribution and social cohesion. Countries use new capital goods to replace old ones that are used in the production of goods and services. If the country cannot replace capital goods until the end of their useful life; Production decreases

Keywords: Social capital, financial development, economic development, social capital index

1. Introduction

Social capital has wide applications in social sciences. Researchers have used this concept to explain various associations with socio-economic consequences. The concept of social capital refers to organizational characteristics such as networks, norms, and trust that facilitate coordination and cooperation to attract mutual benefits. As with other social concepts, the opaque nature of the concept of social capital initially aroused deep skepticism among economists, who questioned the validity of classifying social interactions as a form of capital. Currently, an increasing number of economists acknowledge that social capital has at least similarities with physical and human capital in the intertemporal dimension and its ability to create a flow of future benefits. These interests include information sharing and matching people to economic opportunities, mutual aid, insurance, and effective collective action. Most importantly, it has been shown that different aspects of social capital have significant effects on economic development and growth. Social capital index affects financial development as well as economic growth. Many studies between countries show the importance of trust in determining the country's economic growth prospects. Social capital has been studied by many researchers for nearly a hundred years. Social capital is a vital resource for individuals, groups, and society and serves as a facilitator for doing things. Social capital allows people to work together and access the benefits of social relationships. Social capital allows modern economies to function efficiently. Society, economy, institutions and political system cannot exist without social capital. Social capital refers to the internal social and cultural cohesion of society. It is argued that not only is social capital properly classified as a form of capital, but its economic effects can be demonstrated through the creation and expansion of economic growth models. The emergence of social capital is due to the fascinating integration of economics and sociology. Although the concept of social capital is relatively new. The idea of economic man considers the modern man as

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maximizing his utility and personal benefit. Of course, this attitude ignores the role of social factors in the functioning of society and economy. Social capital provides the basis for understanding a wide range of phenomena beyond economic issues and has been declared as a very important innovative concept for interdisciplinary and transdisciplinary theoretical integration.

It is worth mentioning that two important aspects of social capital have been somewhat neglected, which are: 1- What constitutes social capital and 2- How social capital affects results.

Putnam (1993), Fukuyama (1995) have acknowledged that broad participation of people in social activities and mutual trust varies significantly across countries and regions, and important economic and institutional outcomes such as better performance of institutions, larger enterprises, and growth It brings a higher economy.

2-Definition of social capital

The concept of social capital is one of the most famous outputs of sociological theory and has been published by a number of policy-oriented journals and has become a factor that cures diseases that affect the country at home and abroad. Like other sociological concepts that have followed a similar path, the original concept of this term and its heuristic value have been subjected to severe tests by its various applications. The nature of humans is social and it is evolving towards being social. Working together for a collective action is unconsciously in the nature of humans. Humans tend to help each other, love each other and receive love. Many of the things that humans need are not easily created by themselves; As a result, they need different forms of cooperation and mutual behavior. The benefits of socialization can be called social capital. Social capital is formed from the human capacity to consider each other, think and act forgivingly and mutually cooperate. The concept of social capital is related to the important question of human behavior and motivation, why people help each other and also receive help, even when there is no foreseeable benefit to them. Can rational choice explain this? Is it the result of instinct? Is it the result of psychology, social value or religion? Is it rational for people to provide social services voluntarily?

The first contemporary systematic analysis of social capital was done by Peter Bourdieu, who defined the concept of social capital as "a collection of potential and actual resources linked by having a stable and durable network of more or less institutionalized relations of recognition, mutual familiarity, is" defines. Bourdieu (1985) believes that the benefits and opportunities for people through membership in certain communities also refer to social capital. This temporary impression has also been published in some passing notes. Since Bourdieu's notes were in French, they did not attract widespread attention at first. This lack of visibility is unfortunate because Bourdieu's analysis is one of the most theoretically accurate analyzes that have introduced this term in contemporary sociological discussions. Bourdieu's approach to this concept, focusing on the goals that are instrumental in creating these resources through participation in groups and the optional formation of socialization. In the original version, Bourdieu goes so far as to claim that the benefits derived from membership in groups; It is the basis of solidarity that makes them possible. The noteworthy point is that social networks are not natural data and are created through investment strategies centered on the institutionalization of relationships between groups and are used as a reliable source of other benefits. Coleman (1990) believes that capital Social is a source of people that results from social ties. Therefore, the source of social capital is people. This resource is about people's communication with each other. The question is why some people tend to provide these resources to others without specific compensation. Sociologists have defined two main motivations. The first motivation is that people may do this activity because the norms are strongly institutionalized (sociologists call it terminal motivation). Helping charities, obeying traffic laws, and paying debts on time are all due to compliance with legal requirements.

Of course, various researchers do not agree on the exact nature of social capital and its relationship with trust. Jacobs (1961) has defined social capital as neighborhood networks. While Putnam (1995) has defined

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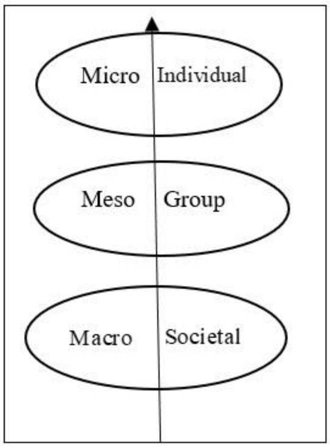
social capital as the characteristics of social life, networks, norms and trust that enable people to participate more effectively and Pursue common goals. Coleman (1990) considers trust as a product of social capital, and Fukuyama (1995 and 1997) considers trust as equivalent to social capital.
In the literature, there are different views on social capital, so that social capital is defined in three levels. At the micro level, this level is social capital in the networks of individuals and households. It is accepted that externalities resulting from interpersonal interactions can be positive or negative. The middle level refers to societies and associational organizations. At the macro level, social capital includes communication at the national and state level, which includes shared language, customs, and traditions.



Which definition is correct is not important from an empirical point of view. All the definitions are very related in principle and in practice. In his 1993 study of local governments in Italy, Putnam has shown that social trust in Italian regions is closely related to the measure of people's civic participation. The close relationship between social trust and civic standards has been demonstrated not only over time and across individuals, but also across countries. Knock and Kiefer (1996) found that trust in people is related to civic norms using data from the General Social Survey during 1972-1994. Brahm and Rahn (1997) also found that civic participation (measured by membership in civic and political organizations) and interpersonal trust were related. Social capital revolves around three dimensions: the interconnected networks of relationships between individuals and groups (social ties and partnerships), the degree of trust that characterizes these relationships, and the resources and benefits that are obtained and transferred through social ties and partnerships. It is called primary social capital.

3- Types of social capital

3-1 links

In social capital, the link refers to groups, membership or networks that create a set of common thoughts and consensus. Social capital is most likely formed from strategic ties and structured ties.

3-2 bridging

Bridging occurs when communication is established between different people based on race, religion, political views, etc. Although similarities may make communication easier, it is useful to bridge the gap between one person and others with different experiences and perspectives.

3-3 Linking

Communication is established between the internal departments of an organization. While these connections may not always constitute social capital. With proper cultivation, social capital can flourish and lead to competitive advantage.

3-4 Identification

Many connections are made and maintained due to similarity in social identity. People often gravitate towards groups with whom

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they are familiar and have similar experiences.

4- The main conceptual approach and history of social capital

Social capital has theoretical-composite roots that have been explored by theorists in economics, sociology, political science, and almost any other social science. Social capital is relevant to anyone who studies cooperation, socialization, and human development. The initial theoretical development is generally made by three authors, each of whom has examined social capital from a very different perspective and has different conceptual and theoretical findings.

• Theory of Capital - Pierre Bourdieu
• Rational choice approach - James Coleman
• Democratic and Civic Perspective - Robert Putnam

Knowing the basis of the theory of social capital helps to guide the countless theoretical perspectives that are currently appearing in the literature on the subject.

4-1 Theory of Capital - Pierre Bourdieu

Pierre Bourdieu is a French sociologist and intellectual who first noticed the dynamics of power in society. His research in the field of sociology of culture, including the theory of social satisfaction, which interacts with power and position, was very effective. Brodieu focused on the nature of culture. about how culture is reproduced and reshaped. One of the key results of Bourdieu's research was the relationship between different types of capital, including economy, culture and society. In 1986, Bourdieu defined the concept of social capital based on the fact that capital is not only economic and that social exchanges alone do not benefit and need to include all forms of capital and profit. Bourdieu considers social capital as individual and not collective property. Social capital enables individuals to exercise power in groups or over individuals who mobilize resources. From Bourdieu's point of view, social capital is not uniformly available to all members of the group or group and is available to people who try to acquire social capital by gaining status and power. According to Bourdieu, social capital is a tool that reproduces the status of the group and thus the individual; Therefore, his approach is instrumental and ultimately individualistic.

4-2 Rational choice approach - James Coleman

James Coleman is an American sociologist who was primarily interested in the sociology of education and public policy. Like Bourdieu, Coleman was interested in different types of capital and their interaction, especially human, physical and social capital. The purpose of the concept of social capital from Coleman's point of view is to introduce economic principles of rational action to be used in the analysis of social systems by considering organizations in the process. Coleman has linked sociology and people's social actions with the rational ideas of economics. The sum of theories shows a middle ground between two traditional theories. First, the pragmatic view of social action that is conditioned by social structure. The second is the rational theory that suggests that people's goals are by maximizing utility through achieving personal benefit. Coleman has connected sociology and people's social actions with the rational ideas of economists that people act independently and for personal benefit. Coleman considers social capital as a fundamental factor in the social structure of communication between people. Bourdieu has paid attention to the power and position and uneven distribution of social capital among individuals, and Coleman considers social capital as a public good that benefits all individuals' actions. Therefore, Coleman interpreted social capital as the collective property of the group and did not foresee the inequality that results and causes the difference in power and position. Ignoring power and conflict is probably due to Coleman's attention to social capital, which he considers mainly the product of social structure. This is a significant departure from Bourdieu's theory, which examined the

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characteristics of collective property under the title of cultural capital. This means that Bourdieu and Kelman's theory about social capital is fundamentally different and has led to confusion in the literature on what is social capital and what is not social capital. According to Coleman, people participate in social interactions, relationships and networks as long as the benefits continue. This logic originates from rational choice theory, which explains human behavior through rationality. These rational actions are set in a specific social context, which is the reason not only for the actions of individuals but also for the development of social organization.

4-3 Democratic and Civic Perspectives - Robert Putnam

Putnam considers social capital as a public good. The degree of participation potential, civic orientation and trust in people in the city and country. From Putnam's point of view, the concept of social capital has been upgraded from the characteristics of individuals to the characteristics of the entire population. This means that social capital has become a collective characteristic that works at the whole level. Putnam has argued that social capital is essentially the amount of available trust and is the main defining characteristic of the political culture of modern societies. From Putnam's perspective, social capital refers to the characteristics of social organizations such as networks, norms, and trust that facilitate action and cooperation for mutual benefits. Putnam follows Coleman's belief that social capital is a quality that can facilitate interpersonal cooperation.

5- The role of social capital in financial development

In the 1990s, institutions became an important area when examining the process of financial development, the success and failure of financial reforms. This was partly the result of the failure of many developing countries to liberalize their financial systems to reap the expected benefits of these reforms. For example, Demetriadash and Andrianova (2004), believe that the strength of institutions such as financial regulations, rule of law, may determine the success or failure of financial reforms. Chin and Ito (2006) also suggest that financial systems with a high degree of institutional and legal development tend to benefit more from financial liberalization than institutions with lower degrees. Michigan (2009) points out that a legal system that makes the execution of contracts fast and fair is a prerequisite for the protection of property rights and financial development. Therefore, eliminating corruption is necessary to strengthen property rights and the legal system, which promotes the healthy functioning of economic and financial systems. Some articles have also discussed the relationship between social capital and financial development. Social capital is often defined as shared values and norms that foster cooperation between two or more individuals. Common norms and values facilitate the functioning of the society by strengthening trust and reducing the incentive to cheat. At the same time, people in the society trust each other more and due to the moral attitude that is institutionalized in people through education. They will fulfill their promises. Trust increases people's understanding of others' cooperation. Therefore, trust plays an important role in supporting cooperation in large organizations, government and large companies. Several studies have been conducted in order to analyze the role of social capital based on trust and economic performance. Knock and Kiefer (1997), Berglesdyk and Shaik (2005), Dinda (2008), Diermon and Guerrier (2009) have also found a positive relationship between the level of trust and economic growth. Nevertheless, the empirical evidence about the effects of social capital on financial market development is relatively weak. Of course, Calderon et al. (2001); Gaiso et al. (2004) have investigated the role of trust and social capital in financial development. Also, in 2008, Gaiso et al. have investigated the relationship between trust and participation in the capital market. Since

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financial contracts are contracts based on trust; Social capital should have a major effect on the development of financial markets. A financial contract is an exchange of money with the hope of getting more money in the future, and it happens when the investor trusts the borrower. Proper execution of formal contracts and additional clauses such as collateral requirements may lend validity to promises. Therefore, trust is especially important when legal institutions are not efficiently designed and implemented. Gaiso believes that social capital is an important determinant of the level of trust and should also affect the level of financial development. Toles and Williamson (2003), Gertsen et al. (2004) have also shown that informal institutions such as norms and social culture help to explain differences in financial development between countries.

Also, the research conducted by the University of Chicago has shown that there is a very strong relationship between the level of social capital governing a region and the amount of use and availability of financial contracts (case study of Italy). They believe that this effect is not due to the removal of environmental variables, but due to the behavior caused by trust between people. Research shows that social capital plays an important role in the amount of financial development in different sectors. The obvious question is, can these results be generalized? Or it is just one of the characteristics of a country with ineffective enforcement of laws. Is this an effect that can only be found in micro-analysis and has no collective results? They believe that they cannot completely reject the first possibility. In fact, the analysis suggests an interaction between trust and law enforcement. When the court system is very efficient or places where people are highly educated, trust is less important (sometimes not important at all), the importance of social capital can be seen in highly developed countries with efficient enforcement of laws and high levels of education. questioned. However, most of the world does not fulfill this description. Therefore, social capital is probably very important in explaining the success (or lack of success) of developing countries. Considering that their research was conducted in Italy, they do not have cross-country measures of social capital to redo their regression. However, Knock and Zack (1999), a general measure of trust based on the country, which is from the value survey have reported the global results obtained. In 1997, Laparta et al. also used dependent variables that are different indicators of financial development in their research. In areas where social capital is at a high level, households keep less cash and invest more in stocks. They are also more likely to use checks and have higher access to credit and use less informal credit.

6- The importance of social capital in economic development

Until the 19th century, systematic investment in human capital was not particularly important in any country. The expenses incurred regarding education, in-service training and other similar investments were very small. This changed dramatically over the course of the century with the use of science to develop new goods and more efficient methods of production, first in England and gradually in other countries. During the 20th century, social capital, skills and knowledge acquisition became the vital determinants of individuals and countries' productivity. The 20th century can even be called the age of human capital. This means that the main factors that determine the standard of living in a country are how successful it has been in developing and using skills and knowledge, improving health and educating the majority of people in the society. The past decades have seen tremendous growth in the importance of social capital. Many countries are currently on the verge of increasing access to secondary and higher education and have made significant progress in the quality of social capital provided at all levels. No country will achieve sustained economic development without investing in human capital. Distribution of social capital is very important. Unequal social capital tends to

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have a negative effect on per capita income in most countries. In addition, controlling the distribution of social capital and using the appropriate performance characteristic and consistent with the asset allocation model changes the average effect of social capital on per capita income, while failure to do this causes negative and significant effects on Average social capital. Investment in human capital has little effect on economic growth unless individuals can use social capital in competitive and open markets. The more competitive and larger these markets are, the more potential there is to use social capital and skills. In the early neoclassical models, social capital is not considered as important data for production, therefore, it is not involved in the growth models. In the 1960s, increasing empirical evidence fueled the development of investment in human capital in economic thought.

6-1 Social capital and productivity

Social capital in countries is an important factor that determines the composition of the country's production and export growth and is an important factor in the country's capacity to effectively borrow foreign technology. For example, nutrition and health and primary and secondary social capital increase labor productivity in villages and cities. Secondary social capital includes profession, facilitation of acquisition of skills and managerial capacity. The third social capital also supports the development of basic science, the appropriate choice of technology import and internal adaptation (indigenization) and technology development. Primary, secondary and tertiary social capital all show that they are vital elements in the development of key institutions, government, law and financial system, and they are all necessary for economic growth. Empirical studies at both micro and macro levels clarify these relationships. In the agricultural sector, evidence shows that social capital has a positive effect on productivity among farmers who use modern technologies, and on the other hand, it is expected to have a lesser effect among farmers who use traditional methods. Social capital plays an important role in technological capabilities and technical changes in the industry. For example, in the research conducted in Sri Lanka, the statistical analysis of the garment industry shows that the level of skill and social capital of workers and entrepreneurs has a positive relationship with the technical changes of the company. Social capital alone cannot transform the economy, the quality and quantity of domestic and foreign investment, along with general policies, are important factors that determine economic performance. However, the level of human capital development also affects these factors. The quality of policy making and investment decisions is influenced by the social capital of policymakers and managers. Also, the amount of domestic and foreign investment is likely to increase when the supply of human capital in the system is greater. From a macro perspective, the new growth theory aims to localize technical progress by cooperating with some of these same effects, including an emphasis on social culture along with education, research and development. According to Lucas (1998), for example, a higher level of the social culture of the workforce is associated with a higher productivity of capital because the more human capital is educated, the more likely they are to be innovative and it affects the productivity of all people. . In other models, a similar externality, such as social capital, increases not only the interest of individuals themselves but also the productivity of others who interact with them. As a result, total productivity increases with the increase of average social capital. The effect of social capital on the nature and growth of exports ultimately affects the overall growth rate, there is another way that the development of human capital affects performance. The social capital and labor skills of developing countries affect the nature of inventory and, consequently, the country's trade mix.

6-2 Social capital and income

There are also positive feedbacks that show that advanced social capital leads to greater income equality, which probably leads to

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higher growth rates. If social capital is broadly based, people with lower income are better able to pursue economic opportunities. For example, a study of the relationship between schooling, income inequality, and poverty in 18 Latin American countries in the 1980s concluded that a quarter of the change in workers' earnings was due to changes in education. This result clearly shows that social capital is a variable that has a strong effect on income equality.

6-1 The effect of social capital on business

Some countries have successfully combined economic opening with investment in education and social capital. Open demand for social capital, education and social capital also makes the country's export sector more competitive. The accumulation of knowledge affects the performance and competitiveness of the country's business. Young and Keller found that business alone cannot be the engine of growth, but it affects growth through guiding certain mechanisms such as the formation of human capital. In a study conducted among 60 developing countries in 1965-87, the World Bank found that when there is a combination of a high level of social capital, macroeconomic stability and the degree of openness of the economy, the rate of economic growth is very high. The effect of trade openness on long-term growth depends on the extent to which people are able to absorb information and technology and use them in trade and investment. In order to adapt to a stronger and global competitive environment, the role of information, knowledge and skills has been emphasized, advanced economies need to continuously improve the overall quality of human capital. Trade also increases the accumulation of knowledge, especially through imports.

7- Social capital and bank

Jain, Kanagartnam and Lobo (2015) believe that in countries with a higher social level, banks' financial reports tend to increase accounting transparency, and their commitment to complying with obligations, commitments and maintaining mutual trust prevents them from taking actions. will selfishly hinder. On the other hand, in countries with a low level of social capital, financial reports are less transparent, and in these countries the probability of bank bankruptcy is higher, as a result, social capital has a significant effect on the performance of the banking system. Zee (2013) has investigated the effect of social capital on the risk-taking behavior of banks, the positive and negative effects of social capital as well as its relationship with the emergence of the ratio of non-current claims to total granted facilities (NPL) in banks. The positive effect of social capital is the moral principles that encourage recipients of facilities to adhere to the terms of the contract of providing facilities and how to repay their debt. However, it also has a negative effect that with the same assumption, banks get false confidence about how to return the facility. Abuse of trust can undermine the very principles on which trust is built. Talavera and Zhong (2012) have investigated the relationship between social capital and access to bank financing. After a survey of Chinese companies and banks, they concluded that in countries like China where the financial market is dominated by state-owned banks, it is important to maintain a high level of social capital to ensure that companies and entrepreneurs have fair access. It is necessary and necessary to have financial resources. Membership in business associations, participation in charity activities are significant examples of factors that increase social capital that can improve the private sector's access to financial resources. Pastoro Tortosa-Acina (2008) has conducted a study on the relationship between social capital and banks and reached these results that social capital affects the performance of banks in five ways, which are: reducing the costs of information, exchanges and Monitoring, risk reduction (In financial sciences, the additional interest and the price paid for risk by investors, taking into account the amount of risk of the securities and the degree of risk tolerance of the investor, is called risk. In simple terms, it is the amount that the investor pays for the risk. adds to its expected capital

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interest rate) and therefore reducing credit and financial costs, reducing facility losses, increasing facility supply and reducing facility quotas, and finally by encouraging customers to use bank products. This study has argued that the direct effect of social capital on banks is through an increase in the trust and confidence of people participating in various banking relationships in institutions and systems that control the political, economic and social well-being of society. When social capital is defined as trust between people and social cohesion between different groups, it has significant positive effects on the borrower and the repayment method. But when social capital is defined as a simple familiarity between people or a person's general trust in the society, it has little effect on the recipients of the facilities. This means that a high social capital has an effect on the repayment of the facilities and can be effective on the profitability of the bank.

8- Estimation of social capital

The social capital index is a sub-branch of the global index of sustainable competitiveness. The social capital of a country is the sum of social stability and happiness of the entire population of that country. Boningna and Schmitz (2009) believe that the social capital index consists of two dimensions: participation and trust. In each of the two dimensions, three social (micro), organizational (middle) and political (macro) levels have been distinguished from each other. Paxton (1999) has pointed out that there are two problems related to the estimation of social capital, firstly, the distinction between indicators and consequences of social capital is not clear; Second, most studies have used a single index for two key components (participation and trust); While it is necessary to use several indicators to correctly achieve the multidimensional concept of social capital. Finally, the concept of social capital should be described to the population and refers to a social asset, while it is generally examined at the micro level. Previous studies have shown that the two components of social capital, i.e. participation and trust, are not related to each other. The conceptual model of the social capital index includes two dimensions and six sub-dimensions as follows:

- Social capital
  - Participation
    - Social participation
    - Organizational participation
    - Political participation
  - Trust
    - Social trust
    - Organizational trust
    - Political trust

9- Summary

Social capital is a relatively new concept in social sciences and is one of the most important challenges of the new era. According to experts, the solution to the problems of the modern world is social capital. The concept of social capital is a facilitator of economic activities and is a necessary factor for economic development, so that no economic development is possible without good social capital. A balanced social capital system not only increases economic development but also increases productivity and individual per capita income. The effect of social capital on micro level is significant. Virtually all forms of traditional socio-cultural groups are based on common values and norms and these common norms are used to achieve goals. For any kind of sustainable accumulation of knowledge, it is necessary for the country to be extroverted and a significant exporter.

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