

THE ANALYSIS OF THE SOCIAL CAPITAL IN THE CONTEXT OF THE DEMOCRATIC CHANGES FROM THE CENTRAL AND EASTERN EUROPE

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Abstract

Social capital represents, together with other forms of capital, an important factor of economic growth. Although it is often neglected by the economists, being difficult to quantify it in terms of direct influence on the productive output, it can still explain the performance differences between states that have similar positions in terms of endowment with traditional factors of production.

In the present paper we intend to analyze the stock of social capital of six states, former members of the Warsaw Pact, in terms of level of trust and civic engagement, relating them to the European average. We will conduct both an integrated analysis of the whole area and a detailed one, on each state, in order to identify the main differences and developments. Then, we will compare these results with the macroeconomic indicators of growth, underlying in this way the connection between the type of social capital and the economic outcomes.

Key words: social capital, transition, economic growth, ECE

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Introduction

The human action takes place in a framework determined by the relationships between individuals, on one side, and between individuals and institutions, on the other side. This hypothesis complicates, in a large measure, the analysis of the economic behavior. When the man is isolated from the other members of the society, the individual may be "suspected" of full rationality, always able to make a good judgment on how he is consuming his resources, as the traditional theory considers. House-holding like Robinson Crusoe, judging in terms of opportunity costs, he can reach the optimum state, securing his long term needs. The intelligence, the skills and the comfort desire are pushing him to take action and help him to achieve his objectives by minimizing the effort. But, just as in the case of Daniel Defoe's famous character, the individual would give up a part of what he has in order to communicate,

to be part of a community, no matter how small, but which he would be able to cover his social needs. And this happens because man is, as Aristotle said, a social being, able and also willing to interact. The interaction, in order to generate positive results, must be accompanied by compromise. The technique and the talent of compromise are the main pillars of an efficient society, as Buchanan and Tullock demonstrated in *Calculation of consensus*. Once we introduce the compromise in the discussion, a dilemma arises: is it compatible with the rationality and optimization? The above mentioned authors say that it is. The compromise is itself an evidence of rationality. The individual notes that, in some cases, the group action brings him more benefits than the isolated one, it reduces his costs and multiplies his benefits. And then, he rationally joins a group in which there are established cooperation relations and he will try to voluntarily obey the predetermined rules and regulations.

On this idea were also arguing those who have introduced the concept of social capital. Although there were a number of precursors¹ that have debated the importance of the social and political relations in the development of the economic act, the first study that really deserves to be mentioned belongs to a sociologist, Pierre Bourdieu (1985) who has noticed that a group membership and the development of relationships inside it increase the chances of success of an action. Another renowned sociologist, James Coleman, presented this aspect three years later: "the social organization constitutes the social capital, enabling achieving the objectives that could not be achieved in its absence or could be achieved only with a higher cost"². For Coleman, the social capital, defined as an amount of rules, norms and networks, acts like any other type of capital, becoming productive when it is integrated into the economic action. "The aspects of social culture" can greatly influence the productivity and the obligations, expectations and gaining the confidence inside the social structures, the channels used to collect and transmit information, the rules and the penalties associated with breaking them, the efficient social organization represent the resources to facilitate the accumulation of social capital in a community. The third brave musketeer who develops the concept, apparently absurd, of social capital is Robert Putnam. He had studied the case of Italy, noting that the efficiency of institutions depends on those civic commitments that the citizens are able to assume. For him, the social capital includes "features of the social life - networks,

¹ Among the precursors of the approaches of this theme could be mentioned Glen Loury („A Dynamic Theory of Racial Income Difference”, 1975) and Jane Jacobs („The Death and Life of Great American Cities”, 1961). Loury challenges the discrimination in remunerations, according to racial criteria. This preferential treatment in employment indicates, in his view, a type of individualism harmful to the U.S. labor market. Without deepening the social capital aspect, he opens the way of approaching it from the social interactions of the minority groups and the effect on the American society.

² Durlauf N., Steven, Marcel Fafchamps, „Social Capital”, *NBER Working Paper*, No. 10485, May 2004, p. 4

norms and trust - which enable the participants to act together more effectively, in order to achieve the common goals”³.

A milestone in studying the social capital was the opening of the former communist countries to democracy and free market. What it seemed easy at the beginning, the implementation of some democratic institutions tested for centuries in the developed countries and the construction of a functional capitalism, had to confront an unexpected obstacle: attitudes, behaviors and habits, those things that shape the society beyond the formal institutions. We know that the democratic changes that took place in the entire communist bloc in the late 90's brought significant changes at the political, economic and social level. As a common feature, we can say that all the communist regimes collapsed almost in the same time, suggesting a single cause: the withdrawal of Soviet support for the communist governments. There was a "domino-type collapse" (Grugel, 2008), which covered the whole red block and not only countries that had internal drivers of changing the activities, such as Poland, Hungary, East Germany etc.. Thus, countries such as Czechoslovakia, Romania and Bulgaria also joined the movement of collapsing the socialist system. McFaul called this process as the fourth wave of democracy (McFaul, 2002). Initially, within this wave could have been identified three distinct groups: Central European and Baltic countries, in which the democratic forces were on hegemonic position, which supported the birth of some liberal democracies, countries in which the new regimes and the balance of power favored the communists, and this group includes the Central Asian countries plus Serbia, Belarus and Romania. Here the transition was difficult, the establishment of democracy uncertain and the risk of sliding towards dictatorship was high.

Tab.1 Comparative measure for some post-communist states

	Index of transition's evolution*	Index of economic freedom**	Index of the country risk***	Index of mass-media freedom****	Index of political freedom*****	Index of corruption perception*****
Czech Republic	36	2,2	60,19	20	3	4,3
Hungary	38	2,55	61,83	30	3	5,2
Poland	36,5	2,75	61,67	19	3	4,1
Slovenia	34	2,9	71,28	27	3	5,5
Bulgaria	30,5	3,3	39,75	30	5	3,5
Romania	29,5	3,65	33,8	44	4	2,9
Slovakia	33,5	2,85	48,44	30	3	3,5
Ukraine	26	3,85	29,96	39	7	2,6

Source of the table: Ekiert Grzegorz, Capitalism and democracy in ECE, Polirom, Iasi, 2010, p.126

³Putnam, Robert D., „Tuning In, Tuning Out: The Strange Disappearance of Social Capital in America”, *PS: Political Science and Politics*, Vol. 28, No. 4. (Dec., 1995), pp. 664-665

Finally, the third category includes countries where the balance of power was undecided (Russia, Ukraine, Moldova, Azerbaijan, Bulgaria, Macedonia and Albania) and where the power struggle between the two sides led to open conflicts or to unstable democracies (McFaul 2002). After more than a decade from the domino moment, the things were more settled. The changes were not uniform, the dominant model was, as Valerie Brunce (2010) said, one of "variation and not of uniformity". As shown in Table 1, there were big differences during this period, even huge among states, both from the economic point of view and in terms of freedoms, state of law and quality of democracy (Grzegorz, 2010).

It can be noticed from the table that only four states had higher values for most indicators: Czech Republic, Hungary, Poland and Slovenia. This group of countries has achieved remarkable economic successes, through a rapid reform. Their economies are currently opened and liberalized, the economic policies are transparent and the democracies are consolidated. It should be noticed that the income inequality is kept below the OECD average and the poverty rate is low. The international financial markets are positive regarding these developments, as shown in the evaluation of the country risk. Therefore, these countries have benefited from important inflows of foreign investment and cheap financing to carry out the infrastructure projects. The civil society appreciates, on its turn, the control of corruption, perceiving the freedom as a fact and not as a goal.

Somehow at the opposite side is the second group, consisting of Bulgaria, Romania and Slovakia. Here the pace of the reforms was much slower and faltering, which created tensions not only in economy but also in society. As it can be seen, the corruption was a major problem, supported by the lack of transparency, by the fragility of state institutions and by the emergence of some interest groups that have distorted the privatization process. These failures recorded during a long period of over ten years, have led to a deepen poverty and to an increasing inequality within the society. Slovakia was the big unpleasant surprise. Although it started well at the beginning of the reform, it has consistently lost the rhythm because of the serious errors of economic policy and of the deepen corruption.

Methodology and data

The social capital can be quite difficult to measure but the process is not impossible. The most widely accepted way to analyze the stock of social capital is based on an evaluation of the confidence level. Trust can be of several types: trust in state institutions, interpersonal trust and confidence in values.

Our research is based on data from European Values Study. We have analyzed the data for the 2nd, 3rd and 4th wave and we have processed them using SPSS. The 2nd wave was applied between 1990 and 1991 on a total of 27 European countries plus Canada and US. In some countries, random sampling was applied, in others quota sampling. 3rd wave of investigation covered 33 countries and was conducted between 1999 and 2000. This time it was used uniformly structured questionnaires that were applied by professional survey organizations. The fourth wave, which took place between 2008 and 2010, was applied in 47 European countries and at regional level, achieving a representative multi-stage or stratified random samples of the adult population.

In the comparative analysis we tried to take into account a country from each of the three groups identified by McFaul. Meanwhile, we tried to see how the responses have evolved during the three survey waves, 1990, 1999 and 2008. The particularities of the surveys and the way of formulating the questions required a qualitative analysis, focused on discovering correlations and scores for some variables.

Results

The interpersonal trust - is, as Putman said, the foundation of cooperation between individuals. It facilitates the communication and the identification of the common goals, negotiation and the establishment of the principles of collective action. We analyzed the responses in the case of a group of six countries, taking care to include in our sample at least one representative of each of the three groups structured by McFaul. We have also included the answers for the four surveys, 1981, 1990, 1999 and 2008.

Tab. 2: Trust in people

You can trust the others / you must be careful (%)								
	I Wave (1981)	II Wave (1990)	III Wave (1999)					
			Slovenia	Hungary	Czech Republic	Romania	Bulgaria	Poland
You can trust the others	39.6	36.5	21.7	22.3	24.5	10.1	26.8	18.4
You must be careful	60.4	63.5	78.3	77.7	75.5	89.9	73.2	81.6
You can trust the others / you must be careful (%)								
	I Wave (1981)	II Wave (1990)	IV Wave (2008)					
			Slovenia	Hungary	Czech Republic	Romania	Bulgaria	Poland
You can trust the others	39.6	36.5	24.2	21.2	30.1	17.6	17.9	27.6
You must be careful	60.4	63.5	75.8	78.8	69.9	82.4	82.1	72.4

Source : The tables are made according to the data from European Values Study (EVS), EVS 2008 - 4th wave, EVS 1999 - 3rd wave, EVS 1990 - 2nd wave, EVS 1981 - 1st wave, <http://zacat.gesis.org>

For the first two rounds, the answers are not detailed by countries but they are presented for the whole region. As it can be seen, the level of trust between people is very different between the six analyzed countries. It can be noticed that on the most unfavorable position, in the second wave, is placed Romania, with concerning results. Trust between people has been severely shaken by the long period of uncertainty, by the poverty of the population, by the failure of the state of law and by the weak capacity of the justice to be a fair arbiter in resolving the conflicts. Later on, after 2000, it has recovered 7.5%, following the success of the reforms and the adhesion to the EU. Meanwhile, Bulgaria, which initially had good results in terms of interpersonal trust, has lost a lot between the third and fourth wave. If in the third wave its position was superior to that of Poland, the situation is reversed in the fourth wave, when it has lost 8.9%. Instead, Poland, whose economic development has been spectacular, recovers about 9.2%. It can be also noticed that countries from the so-called Visegrad group (plus Slovenia) have obtained good results correlated with the indexes from the table no. 1.

Tab. 3: Trust in Parliament

Do you trust in Parliament?(%)														
	I Wave (1981)	II Wave (1990)	III Wave (1999)						IV Wave (2008)					
			Slovenia	Hungary	Czech Republic	Romania	Bulgaria	Poland	Slovenia	Hungary	Czech Republic	Romania	Bulgaria	Poland
Very much	9.9	7.1	5.1	4.2	1.8	3.7	6	8.6	2.2	2.3	1.9	5.5	2.4	1.7
Pretty much	37.8	35.4	20.2	28.3	11.1	15.5	21.8	25.3	44.3	18.4	15.1	18.5	8.9	20.2
Not very much	40.7	43.7	52.9	43.8	56.7	41.2	47.3	44.3	45	47.6	46.9	44.3	35.8	46.7
Not at all	11.6	13.9	21.8	23.7	30.4	39.6	25	21.7	8.4	31.7	36.1	31.7	52.9	31.4

Source: Own processing after European Values Study (EVS), EVS 2008 - 4th wave, EVS 1999 - 3rd wave, EVS 1990 - 2nd wave, EVS 1981 - 1st wave, <http://zacat.gesis.org>

Tab. 4: Trust in justice

Do you trust in justice?(%)														
	I Wave (1981)	II Wave (1990)	III Wave (1999)						IV Wave (2008)					
			Slovenia	Hungary	Czech Republic	Romania	Bulgaria	Poland	Slovenia	Hungary	Czech Republic	Romania	Bulgaria	Poland
Very much	15.6	11	10.5	6.5	5.8	10.7	8.6	12.5	2.4	5.1	6.8	10.2	3.4	7.1
Pretty much	45.3	40	33.2	37.7	17.2	29.4	18.3	30.6	44.9	33.2	28.1	31.3	14.2	35.9
Not very much	32.3	39.2	42.2	37.8	57.3	39.1	44.2	40.4	42.7	45.7	44.5	37.7	37.9	40.8
Not at all	6.7	9.8	14.1	18	19.7	20.8	28.8	16.6	10.1	15.9	20.5	20.7	44.5	16.3

Source: Own processing after European Values Study (EVS), EVS 2008 - 4th wave, EVS 1999 - 3rd wave, EVS 1990 - 2nd wave, EVS 1981 - 1st wave, <http://zacat.gesis.org>

Trust in the state institutions - is also a good indicator for measuring the social capital stock. Perception of the stability and consistency in enforcement of the institutional rules of

the state of law, the conscience that the individual action is properly supervised so that it does not exceed the common framework, that the deviations are quickly and correctly punished, that the laws and rules are general and not biased, lead to a decrease in the transaction costs.

As we can see from the analysis of the trust in the two vital institutions of democratic society, parliament and justice, the evolution within countries, over the last two waves, where it can be captured, is a positive one. It has to be mentioned that, for all six analyzed countries, between 1999 and 2008, the adhesion to the European Union occurred, being a catalyst for increasing the confidence in the state institutions. There are major differences between countries, some of them being surprising. It can be noted that Slovenia, a nation that had one of the fastest and stable economic development is characterized by high levels of trust, both in justice and in the law, which is positively correlated with the scores from Table 1. Czech's position is surprising: although it succeeded to implement very well the democracy and the free market, it has still failed to provide a guarantee of success, according to the perception of its own citizens. However, the external assessments for the Czech Republic are very good, as shown in Table 1.

When we make the correlation analysis between the two types of trust, we should conclude that the trust between people depends on the trust in the state's ability to manage the society, to build rules and monitor their compliance. However, as shown in the tables of correlation, the reality is far from this situation. The qualitative analysis performed on the two types of questions, the trust in people and the confidence in the legislation, in the case of the "Cinderellas" from the transition period, shows that among the two types of trust there is no clear connection.

The explanation is related to the democratic culture, to the fact that people didn't have the time to fully understand the principle on which the modern society is based. The heterogeneity of the crossed questions is high.

Tab. 5: Calculation of correlation indexes

Bulgaria IV Wave (2008)		You can trust people/you have to be careful.
Do you trust the Parliament?(%)	<i>Correlation</i>	0,088
	<i>Significance</i>	0,0009
Romania IV Wave (2008)		You can trust people/you have to be careful.
Do you trust the Parliament?(%)	<i>Correlation</i>	0,079 **
	<i>Significance</i>	0,0040

Source: Adaptation after European Values Study (EVS), EVS 2008 - 4th wave, <http://zacat.gesis.org>

Despite these, if we expand the analysis, testing what is the level of confidence in democracy, we can see that just the citizens of the countries that have problems in

understanding democratic levers, Romania and Bulgaria, have the highest confidence in democracy.

Tab. 6: Up to what extent do you consider the following statement to be true: the democracy is the best form of government (3rd wave – 1999, 4th wave - 2008)

3 rd Wave	Romania	Bulgaria	Poland
Up to a very high extent	33,9%	44%	23,6%
To high extent	44,3%	40,3%	65,7%
To a very low extent	14,9%	11,9%	9,3%
To a low extent	6,9%	3,8%	1,4%
N	973	846	944
4 th Wave	Romania	Bulgaria	Poland
Up to a very high extent	29,8%	28,4%	23,4%
To high extent	57,6%	54,3%	66,9%
To a very low extent	9,9%	13,9%	8,7%
To a low extent	2,6%	3,4%	1%
N	1301	1278	1352

Source: Adaptation after European Values Study (EVS), EVS 1999 - 3th wave, <http://zacat.gesis.org>

The number of the optimists very confident in democracy was very high in 1999, both in Romania and Bulgaria, in contrast with the economic situation reflected in the final table. Even if the unemployment reached 16% in Bulgaria and 11.5% in Romania, the GDP per capita was at a much lower level than all the other countries and only at three quarters compared to 1989, the inflation was still high, with values of two digits, however the population didn't lost its confidence in democracy, which can be considered a remarkable aspect. An important role was also played by the pressure that the international community, and especially the EU, have exerted to implement the state of law on behalf of a potential adhesion to the European developed space.

Tab.7: Economic indicators 1989-2009

	Years of decline in GDP	Decreasing GDP after recovery	GDP growth between 1989 and 1994	GDP growth between 1995 and 1999	GDP growth between 1989 and 1999	GDP in 1999 (1989=100)	GDP per capita (\$)		Unemployment (%)	
							1999	2009*	1999	2009**
Czech Republic	6	Yes	-2	1,5	-0,4	95	5.189	7.225	9,4	8
Hungary	4	No	-2,6	3,4	0,1	99	4.853	5.833	9,1	12,5
Poland	2	No	-1,1	5,8	2	122	3.987	6.331	13	11,9
Slovenia	4	No	-2,1	4	0,7	109	10.020	8.042	7,5	9,1
Bulgaria	6	Yes	-4,6	-1,6	-3,2	67	1.513	2577	16	7,6
Romania	7	Yes	-4,6	-0,8	-2,9	76	1.517	2.542	11,5	7,8

Source: *Transition Report*, The European Bank for Reconstruction and Development, 2000.

*tables_TransMonee_2011, Economic Indicators, GDP per capita, 2009.

**tables_TransMonee_2011, Economic Indicators, Annual registered unemployment rate, 2009.

In subsequent years, although the economic situation of the two countries has considerably improved, the number of super-optimist people decreases in 2008, but it has still remained higher than in Poland, a country significantly advanced on the development ladder.

The answer may be in a more mature approach of the question, due to the accumulation of democratic experience and information. It is noticeable that, towards 2008, the extreme responses start to be less significant, increasing the number of those relatively confident in democratic values. It has to be mentioned that the total number of the suspicious persons strongly decreases, both in Romania and Bulgaria. If we also look at the macroeconomic indicators, we can make a correlation between the improvement in the living standard (GDP growth / capita with over \$ 1000) and the overall growth of the population that believes in democracy. The fact that the intensity of this belief has diminished, from very much to much, as we have already said, was also influenced by the moment when the survey was made, 2009-2010, when the economies began to re-enter in the recession without having taken the advantages of adhesion to EU, in 2007.

Conclusion

The obtained results show that the transition period led to a significant change in the social capital stock in the analyzed region, which consists in a substantial change of attitude towards other people and institutions. Starting, in the 90s, with a weak perception of the real values of democracy and market economy, the analyzed countries have succeeded, in different ways, to surpass this handicap due to the economic and political stabilization. The pace of recovery was different and depended on the success of the reforms. However, what is remarkable is that despite the poor economic performances, the population from Romania and Bulgaria did not lost the faith in democracy. On the other hand, these economic results have affected the interpersonal trust. The low confidence in the institutions of the state of law (justice, presidency, parliament etc.) is very strange, considering that the confidence in democracy is high. This is a possible direction for a future research. Our analysis has its limitations generated by taking into account of a limited number of countries (it can be extended to the whole ex-communist area) and by the possible choice of specific indicators for social capital, since there is no general agreement on the best way of assessing this form of capital.

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