

Social capital and cooperation in Central and Eastern Europe: a theoretical perspective

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ICAR

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**SOCIAL CAPITAL AND COOPERATION
IN CENTRAL AND EASTERN EUROPE**

A Theoretical Perspective

Catherine Murray

ICAR Discussion Paper 9/2005

Discussion Paper

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Social Capital and Cooperation in Central and Eastern Europe

A Theoretical Perspective

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Abstract

The transition process in central and eastern Europe (CEE) had a profound effect on how individuals interact. Economic and social institutions have changed, requiring an adaptation process by individuals in the move toward a market economy. How each individual accesses, manipulates and uses their networks will determine the use of their social capital. Within CEE, there is a presumption of low levels of social capital. This paper was written as a conceptual framework for a research project entitled 'Integrated Development of Agricultural and Rural Institutions' (IDARI) in CEE countries. One element of the IDARI project is to understand the emergence and maintenance of cooperative behaviour in light of rural restructuring and institutional change in CEE. A link exists between social capital formation and cooperation amongst individuals, as both concepts imply social interaction and the formation of trust.

This paper questions the rationale of applying the contested 'western' concept of social capital to CEE countries. It argues that although the concept was developed to understand processes within established democratic systems, it nevertheless is instrumental for analysing how trust is formed, and for understanding cooperation amongst individuals. As such, this framework reconciles literature from sociological and economic disciplines. Social networks and use of those networks (social capital) is becoming more important in light of accession to the EU, particularly when opportunities within and access to rural and regional development programmes are dependent on existing networks. Social capital is seen as a dynamic entity, a form of institutional change, which leads to innovation in the existing governance structures. Thus social capital provides a powerful explanatory tool for processes of institutional change.

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1 Introduction

In central and eastern Europe (CEE) the processes of institutional change have resulted from external shocks, imposed by political regimes and sudden regime changes over the last sixty years. The socialist regimes and centrally planned economies changed the social fabric of CEE, and resulted in particular types of behaviour between individuals. Most notably, was the effect on interpersonal trust, which resulted in complex trust patterns (both high and low levels) between individuals and groups of individuals. Within both economic and sociological theory, a person's institutional endowment is acknowledged, and part of that endowment originates in social ties or communities of association. This has been termed social capital, and relates to the extent that individuals benefit from their personal networks and communities of association (Bourdieu 1986). Trust is a central component of social capital, as it determines the strength of these social ties. Given that patterns of interpersonal association and social networks have been influenced by changing political regimes in CEE, the role of social capital as an explanatory factor for economic and social behaviour will differ from other countries that have not experienced a socialist state, with its central planning and control over social structures. The social context is important for understanding processes of cooperation in CEE, as the interactions between people have further been influenced in the last fifteen years by the democratisation of the political sphere and with the transition process from a planned to a market-oriented economy. The change in formal institutions, in particular legislation relating to property rights and market exchange, reverberated and effected the informal institutions. With accession to the EU of ten of the CEE countries in 2004, further changes were experienced, requiring adaptation to the EU's *acquis communautaire*, while also offering opportunities and constraints for the newly acceded countries within the structure of the EU and its institutions. From an economic viewpoint, social capital recognises value in social relationships, which can have market benefits. How this social capital manifests and is used within CEE requires further elaboration, and is the subject of this paper, which has been written within the context of an EU project entitled 'Integrated Development of Agricultural and Rural Institutions' (IDARI)¹. To undertake research into social capital processes requires a specific framework, which is sensitive to the political and social forces that have manifested in CEE.

¹ IDARI is financed under the European Commission's FP5: Quality of Life and Management of Living Resources, Key Action 5 (QLRT-2001- 02718). For further information, see <http://www.idari.ie/>

The IDARI research project focuses on learning, innovation and institutional change in rural CEE. The element of ‘integrated development’ relates to the integration of institutional economic theories, while the project employs empirical evidence of multilateral actors and stakeholders integrating their actions for a common purpose in different rural settings of CEE. In so doing, networks are formed, based around a shared problem, whose solution requires cooperation amongst the actors. Thus the concept of social capital is appealing to the IDARI research agenda, specifically as the IDARI project questions the role of market, State and communities in solving collective action problems, resulting either in cooperation, non-cooperation, or actual conflict between the actors (figure 1). It is during the communication process, between actors in the State, communities and market that social capital is formed.

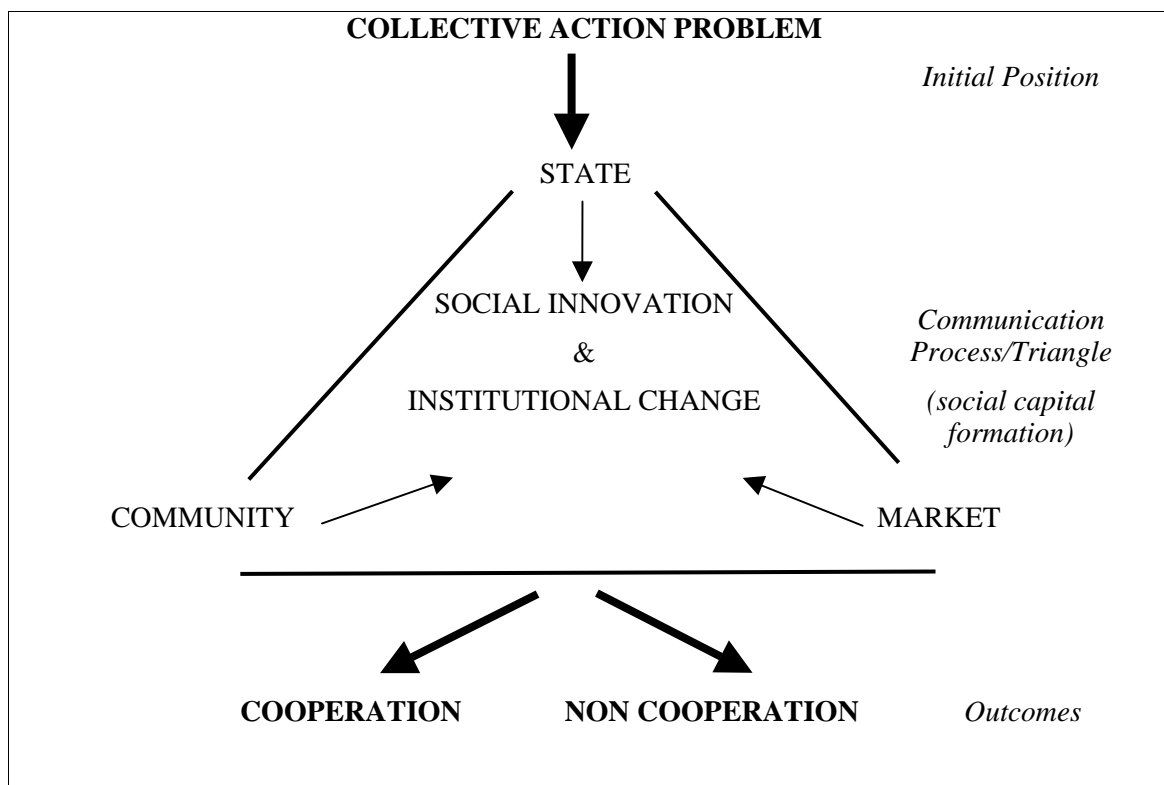


Figure 1: Framework for analysing Communication and Cooperation in IDARI

When exposing behavioural attributes of actors leading to collective action, the role of informal institutions such as trust, communication, learning and behavioural norms become central. Indeed trust is seen as the basis for all transactions and contracts that individuals make, both within market and civil society. It is also a central component in measurements of social capital (Grootaert et al. 2004; Paldam and Svendsen 2000). This paper argues that these concepts can be explored using a social capital framework, although a nuanced approach is required to reflect the social realities prevailing in CEE.

The concept of social capital has universal appeal, despite variations in its measurement according to the particular context. From reviewing the literature on social capital (section 2), this paper clarifies how it can be adapted as a framework for analysing situations on a micro-level, with particular application in rural CEE. In particular, three categories of social capital are critiqued as relevant to CEE, based on: a) rational choice theory; b) civic engagement and voluntary activity; and c) network theory. The interpretation of social capital as networks of cooperation, dependent on trust and reciprocity is endorsed (Ostrom 2000), and considered the most appropriate for exploring social processes in CEE.

The notion of social capital as the nature of the relationships between people and the social networks that they form is endorsed. Only then can the processes that enable a defined group of people to trust each other, and mutually benefit from that trust through cooperation in collective problem solving, be fully understood. It is argued that a micro-level approach to social capital overcomes the methodological problems associated with its measurement, in particular due to the cultural sensitivities of the term (section 3). Therefore in-depth case studies of networks of interaction are appropriate. Thus the cultural bias of applying a theoretical construct in CEE countries, which was developed specifically to analyse social processes in western democratic countries, is overcome. A framework for further research is proposed in section 4, which is based on the models of Ostrom (2000; 1998) and Paldam and Svendsen (2000). It is argued that this framework bridges the tension between the differing economic and sociological constructions of the term, as it includes network effect of interactions, trust between actors and rational choice of those actors. In this paper social capital is not considered an institution in itself, but how it is used is subject to institutional analysis – relating to the rules governing social interactions between individuals.

2 Social Capital

Social capital is seen as an indicator for the general health of a democratic market economy, with links established on a macro level between social capital and economic growth. Fukuyama (1995) suggests that trust leads to efficiency in the market, and furthermore, trust increases prosperity, as crime is reduced with economic security. Similarly Putnam (1995: 67) defined social capital as “the norms and networks of civil society that enable groups of individuals to cooperate for mutual benefit (and perhaps for broader social benefit) and may allow social institutions to perform more productively”. The Brehm and Rahn (1997) model is a useful basic departure for introducing the process of social capital formation (see figure 2). It shows a reciprocal relationship between civic engagement, interpersonal trust and

confidence in government (and their institutions). The more that individuals participate in their communities, the more they learn to trust others; the greater the trust that individuals hold for others, the more likely they are to participate, which in turn leads to civic participation with the State. Putnam (1993) is credited with operationalising the above concept of social capital for empirical analysis. He saw it as being “embodied in forms such as civic and religious groups, bonds of family, informal community networks, kinship and friendship, and norms of reciprocity, volunteerism, altruism and trust” (ibid: 67). His most acknowledged contribution to the theory is the proxy indicator that measured the density of voluntary organisations, termed the ‘Putnam instrument’.

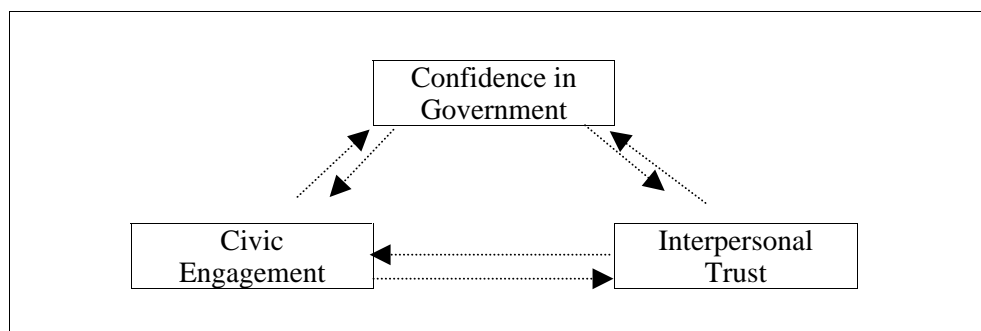


Figure 2: Structural model of social capital

Source: Brehm and Rahn (1997: 1002)

Social capital is in a particular position of an interdisciplinary debate. The concept has its roots in two main disciplines – sociology and economics². There is a tension in the term itself, as ‘social’ implies collective action, the existence of networks and sharing of norms amongst individuals, whereas ‘capital’ is an economic term, which understood in terms of the theory of production and utility maximisation (within which it was initially developed), removes the individual somewhat from their social context. This tension is important, and it explains the differing approaches to social capital within both disciplines. The root of the theoretical contestation stems from the acceptance of methodological individualism or methodological holism in constructing the concept of social capital. It can be diffused somewhat by explicitly recognising that rational action is a basic premise, but methodological individualism - which is often associated with it - need not lead to atomism or purely selfish behaviour (Field 2004). A problem highlighted with all methodological holistic models of social interaction is that if social change is to be understood, the theory must have agents of that change (Boettke and Coyne 2005). Individual actions generate a social order, which can benefit a group, or result

² For a comprehensive discussion and overview of the evolution of the social capital concept, see Hazleton and Keenan (2000); Portes (1998) and Castle (2003).

in a collective activity. Groups are comprised of individuals, who choose between institutions, while also being constrained by them. Hence the appeal is integrating rational choice theories with social capital theory. Regardless of contestation in the construction of the term, social capital has manifested itself from the discipline of sociology into everyday language, and Bowles (1999) argues that it has gained credence within economics as it conveys ideas that were missing in neoclassical economic thought (within the language of preferences, expectations, constraints and equilibrium). It forms a counter-argument against the idea that well-defined property rights and competitive markets can successfully harness selfish (individualistic) motives to public ends, so as to make civic virtue unnecessary. This latter point should be borne in mind in any analysis of transition economies, where there has been an overhaul of property right regimes, with a trend toward privatisation of rights. Social capital is important to overcome certain market failures in the provision of local public goods and many types of insurance.

However, negative aspects of social capital have also been identified. Portes (1998: 15) identified four important aspects: 1) the exclusion of outsiders from networks, 2) excess claims on individuals who are network members (due to 'free-riders'), 3) restrictions on individual freedoms of those within the network, and 4) downward levelling norms (in networks which are considered undesirable or sub-optimal). The examples that Portes uses to illustrate these negative aspects need to be placed within their informal institutional context, to clarify causality. The first two relate to power structures within the network, restriction on freedom relates to social obligation, while undesirable networks is a subjective opinion of what form the 'good' behaviour should take. Emphasis on this latter point should be treated with caution, as it could warrant grounds for social engineering, or attempting to make individuals behave in a certain way. Critics of the neo-liberal approach toward social capital (such as the World Bank approach) recognise this point. This is especially relevant for the discussion of social capital in CEE, where behaviour should be placed within its institutional context. It is not necessarily the theoretical construct of social capital that leads to these negative consequences, but rather the structure of interactions and distribution of power within networks *a priori*. Indeed, Harriss (2002) questions the logic of studying social capital without analysing power and conflict. He argues that local social organisation has to be put in context of the overall structures of social relations and power. This leads to the theoretical and methodological question which challenges social capital theory of who benefits from an increase in social capital within society; who owns social capital – does it belong to the individual or the society (Shucksmith 1998). Although as Fukuyama (1995) contends that benefits accrue to the whole society and as such can be seen as a public good, a closer

examination of the distribution of the benefits is required. There is a need to move away from the macro debate on social capital to understand the processes that mould the formation and maintenance of trusting relationships between people, while analysing how the State, organised groups or communities and markets contribute or hinder this process. This can be achieved through a network approach to social capital.

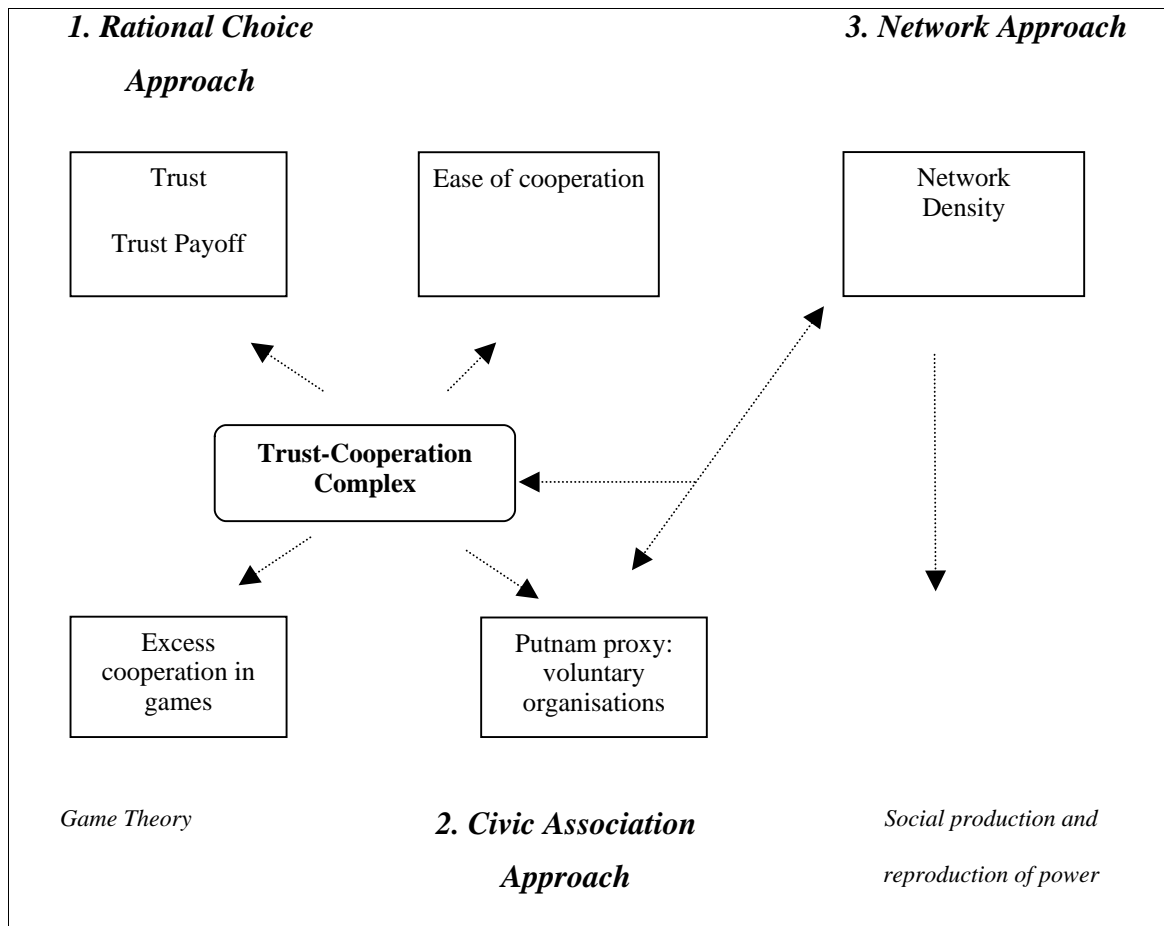


Figure 3: Three categories of social capital concepts

Source: Based on Paldam (2000: 630), with author's addition in italics.

Such an approach to social capital is not novel, as indeed Bourdieu's (1986) formulation of the concept was based on networks of interaction. Studies of network structures assume causality between actions and actors involved with a network (Flap 2002). Embeddedness matters (Granovetter 1985) and networks provide opportunities for individuals to exploit resources which social relations give access to. However, many of the empirical studies on social capital tend to focus specifically on the Putnam proxy (civic engagement), while ignoring network structures and the rational choice of actors (calculated trust). Integrating these three definitions of social capital merges the formulation of the concept between the

differing sociological and economic foundations of the term (Mateju 2002; Mihaylova 2004a) and it allows for an analysis based on rational choice while including social esteem and power structures which lead to social reproduction and inequality. These ideas are incorporated in figure 3.

The rational choice approach is based on the strategies used by individuals to interact with one another, while dependent on calculated trust of that interaction. This approach has its formulation in economic game theory analysis. The network approach is a more sociological approach to social capital, as it affirms the importance of embeddedness and allows for a discussion of power structures within society. The civic association approach lies somewhere in-between these two approaches, as the concept of trust (both interpersonal and formal institutional trust) is used, as is the connectivity of individuals to their social arenas. The social relationship between individuals is important, as it allows access to resources and also affects the governance of resources. The structural dimension of social capital has been identified within the literature. Structure relates to position within a network, and affects access to other individuals and ultimately conditions the use of social capital (Hazleton and Keenan 2000). The question arises over the choice or inheritance of social networks. An individual's position within a network can be embedded, yet not through his/her own choice. Much of the literature within sociology analyses institutional embeddedness and constraint due to inheritance, or from an evolutionary perspective without necessarily including the individual's choice of association (Flap 2002). However, although individuals are born into and become socialised into an existing social network, at some point each individual has a choice to change or modify his/her networks, for whatever particular reason. Thus the behavioural attributes and motivations are important. Rational choice theory allows for such conscious decision making, while concurrently it makes the analysis of social networks difficult to operationalise. Networks are constantly changing and evolving. This is the challenge for designing a research framework relevant to the study of social capital in CEE. The following section deals with the question why social capital merits attention and further empirical elaboration with particular reference to CEE. The appropriateness of the three categories of social capital, identified from figure 3 above, to the situation in CEE is discussed – the rational choice of actors, the Putnam proxy of voluntary action, and network structures resulting in power and access to resources.

3 The Relevance of Social Capital in CEE

Given the links between social capital and a 'healthy' functioning of a market economy, the logical research agenda in testing social capital theory would appear to be to monitor the levels of social capital in countries that are moving from a planned economy to a more democratic market based one. Such macro exercises have been undertaken recently³. In a comparative study, Fidrumuc and Gerxhani (2004) reveal lower levels of social capital in CEE in comparison to Western Europe and explain this by the economic disparities between the two regions. Paldam and Svendsen (2000) have termed the situation in post-communist countries as displaying 'missing social capital' from the western context within which the term was conceived. However there are definitional and methodological issues relating to conceptualising and measurement techniques of social capital itself, which are exacerbated by the path-dependent social structures in CEE (Kyriazis and Zouboulakis 2005). Critics have argued that transposing the western construct of social capital to post socialist contexts is biased, and ignores the existing social realities in these countries (Hann and Dunn 1996; Dowley and Silver 2002), where complex social forces result in various forms of emerging networks, differing levels of interpersonal trust among actors and oftentimes low trust levels in formal institutions. This leaves the comparative international (macro) studies on social capital somewhat lacking. The social realities in CEE have been formed by prevailing local institutions, and are path dependent. The institutions are shaped by the experiences during former socialist times, which comparative studies use merely as explanatory factors. These revealed low levels of social capital mask many social processes that are not encapsulated by the measurement techniques of the comparative studies.

Whether people are predisposed to form relationships with one another depends on social norms and the prevailing social structure. Within CEE, the presumption of low levels of social capital is explained in the literature by such forces as: an increase in general mistrust brought about by experiences within a planned economy (Swain 2000); the dictatorship theory of missing social capital (Paldam and Svendsen 2000) which eroded or destroyed voluntary cooperative engagement, and when individuals associated their political leaders with corruption and merely having self-serving interests (Lang 1999); an increase in mistrust

³ See Mihaylova (2004a) for a comprehensive review of social capital research undertaken in CEE and Russia; comparative international studies on stocks of social capital in CEE have been undertaken within the European Bank for Reconstruction and Development (EBRD) by Raiser et al. (2001), by the Organisation for Economic Co-operation and Development (OECD) (2001) including Healy (2002), and by Fidrumuc and Gerxhani (2004).

brought about by the 'grabbing' strategies of certain individuals in the early transition period (Sik and Wellman 1999); or a high reliance on family and kinship networks in countries with 'weak' formal institutions (Theesfeld 2004; Greif 1994). All these factors impose constraints on the formation of social capital in the post-communist states as measured using conventional techniques. The previous section introduced three categories of social capital concepts, which are seen for the purposes of further research in CEE rural collective action (the IDARI project) as integrative of economic and sociological approaches to social capital. These were rational choice; civic engagement and voluntary organisations; and networks. Each approach is discussed in light of its relevance to social dilemmas of collective action in CEE.

3.1 Rational Choice and social capital in CEE

Coleman (1988) is credited as basing social capital on methodological individualistic foundations. Methodological individualism and equilibrium strategies of game theory are used within rational choice theory for enforcing group norms even at a cost to oneself, due to the collective benefits of cooperation and potential stream of future benefits. Within this emerging theoretical literature, the role of trust is pivotal for designing individual strategies. Trust alleviates the concern for being mistreated, and it also suppresses an individuals' own opportunistic behaviour. Although there are many different levels and taxonomies of trust⁴ Paldam and Svendsen (2000) argue that a trust definition of social capital is the most basic. They define it as the density of trust existing within a localised group/network, which then can be extended to the whole of society. Three levels of trust are specified: personal trust (informal governance), general trust among strangers and institutional trust (formal governance).

As stated above, there are complex and differing levels of trust patterns emerging in CEE, with low levels of trust in one sphere offset by high levels of trust in others (Lovell 2001). In addition to the importance of trust in social relations and interactions (informal), trust is recognised as the basis for commercial contracts and agreements between people. Thus the role of trust has changed radically in the move to market based economies of CEE, requiring trust in the price mechanism within markets, financial institutions, new business partners (generalised trust) and fundamentally in the State (formal) to uphold and protect the new

⁴ For example, see Nooteboom (2002: 50) who identifies seven forms of trust: behavioural trust (in people), material trust (in objects), competence trust (in ability, skills, knowledge and technology), intentional trust (including dedication, benevolence and goodwill), conditional trust (outside enablers), exemplar trust (in role models) and informational trust (in honesty and truth).

property rights, which were central to the transition process. The expectations of instituting such levels of trust can be seen as a ‘leap of faith’ for many individuals, as they move from relatively closed trust networks (such as family and friends) to more open general trust of strangers with whom they interact (Cook, Rice and Gerbasi 2004) given that experiences in former socialist times led to a climate of fear and mistrust of the State and its apparatus for many individuals⁵. In a study of small enterprises and private firms in 26 transition countries, Raiser, Rousso and Steves (2004) examined generalised trust in business transactions, based on the contracting environment within these countries. They found that trust increases as reforms progress within the countries. It would be expected that trust would increase over time also, once relationships are established between individuals in a market setting, or through ‘repeat play’ in game theoretical terms. Indeed the idea of economic progress and a move to a more modern structure of society can be seen as a move away from reliance (trust) in family and informal networks to more generalised trust⁶. However, high informal trust in family and close friends was a coping mechanism for many people during socialist times, and such institutions do not simply disappear with changes in the political and economic regimes. Another interesting finding from Raiser et al. (2004) was that in countries where family networks play an important role, trust is significantly higher, whereas the opposite is the case in countries with significant reliance on networks based around government. Such comparative surveys do not capture levels of informal trust between individuals, as more detailed information on networks is required. Research undertaken within the IDARI project will focus on this aspect of informal trust, especially how communities organise themselves for a collective action problem – thereby displaying levels of trust on a localised level. It also should be stressed that trust is one component of social capital, and should not be treated as synonymous with it. The institutional environment within which trust manifests, requires elaboration.

3.2 Civic Engagement in CEE

Emphasis on civic engagement of actors has dominated studies in social capital, partly because the development of an indicator for its empirical measurement (the ‘Putnam’ proxy), and the recognition that civic engagement is essential for cooperative behaviour. A civic

⁵ See Lovell (2001) for a critique of how the Communist system paradoxically destroyed trust between people and government and between people themselves, while attempting to establish a community based on mutual trust. Official hypocrisy, official corruption, secret police surveillance and the suppression of meaningful citizen participation jeopardised trust.

⁶ For a discussion of the evolution of social capital within CEE, see Eyal, Szelenyi and Townsley (1998).

community is one marked by 1) active participation in public affairs; 2) political equality; 3) solidarity, trust and tolerance; and 4) widespread membership in voluntary associations (Kunioka and Woller 1999). Within CEE, ability to participate in public affairs and political equality has been introduced only in the last 15 years. During socialist times, the authoritarian politics dominated economic activity and attempted to control activities in the social sphere. How the public institutions are organised now is important for explaining social capital in CEE. However, the extent to which there is effective and/or meaningful democratic participation in any country, beyond access to polling stations during elections, is disputed. Based on recent studies in CEE, there is evidence that citizens support the new democratic regimes, and on the whole prefer them to the communist regimes that they replaced (Mishler and Rose 1997). However this does not guarantee immediate active participation in civic affairs by citizens, and indeed the reverse is argued by Rothstein (2004: 16) – that the particular type of State institution produces individuals and organisations with high (or low) levels of social trust. From a study of trust in post-communist Europe undertaken by Miller, White and Heywood (1998), it was concluded that the countries were characterised by low levels of trust in the new political institutions of democracy. In particular there was distrust and cynicism for politicians. By contrast, trust ‘in ordinary people’ was high and uniform across most countries within the survey, but again, it does not systematically ensure high levels of civic engagement.

Out of all the components in the Putnam proxy measurement of social capital, caution is warranted in over-reliance on measurement of participation in voluntary organisations in CEE. This is not to deny that it is through this process that norms are learned and shared among actors and communities. These include solidarity, trust and tolerance, which are all strengthened through repeated experiences of social interaction. However, with lower income levels in CEE, the opportunity cost of time may be too great to spend on community or social activities, or there may not be opportunities for people to engage in certain social activities that are considered ‘conducive’ to social capital – for example involvement in charitable organisations or sports clubs. Therefore from a methodological viewpoint, attempts should be made to elucidate the more indiscernible indicators where informal community networks enhance altruism and trust. This is one of the main attractions of the network approach to social capital.

3.3 Network Formation in CEE

Networks are present wherever individuals engage with one another. This occurs both within social and political settings, and also within economic exchanges. Indeed markets have been

analysed purely in terms of networks of actors (White 2002; Hurrelmann 2004) rather than the traditional view of them as physical or tangible entities. In CEE networks are constantly changing, as their functions change. In former socialist times, being connected to the Communist party or political networks gave opportunities for some individuals to access privileged resources. Informal and family networks were also important, especially when certain goods and services were produced within the household (Rose 1999). This reliance on family and friends may hinder the effective functioning of market mechanisms, or it could result in the creation of black markets, and thus is considered pervasive to economic growth (Mateju 2002). But within these informal networks, social capital is present – the individuals trust the network within which they operate and benefit from their association with the network, in terms of access to resources (Rothstein 2004). The aspect of social capital and network formation is also important within post-socialist societies, especially when considering Portes' (1998) negative social capital. Paldam and Svendsen (2000) argue that during socialist times, the 'system' tolerated and even needed grey/black networks. These shady networks did not disappear during the transition phase, and are prevalent in certain CEECs.

The emergence of new markets during the transition process enabled some individuals to adapt and benefit from these new opportunities. With respect to rural areas this network aspect has been studied in relation to cooperative farms and privatisation of agricultural land in the 1990s. The results of these political and social changes had mixed results. Gatzweiler and Hagedorn (2001) showed that certain cooperative managers fared well in the transition period due to the good business practices learnt from the cooperatives and collective farms, and having information due to their position – thereby capitalising on their position. The transition process did not just lead to atomised agricultural production on the newly privatised farms. Networks persisted, and Swain (2000) demonstrated the endurance of networks and collective identities of the rural population using evidence from cooperatives in Hungary. This was due to benefits of sharing resources in agricultural production, and it was rational for the farmers to continue to work together.

What is important when conducting research into social capital and network formation is to examine relative positions within a network. Networks will only persist as long as there are benefits to its members, and thus can be seen as functional – for political, social or economic reasons. Networks provide a mechanism for transmitting information and knowledge amongst its members. Thus how the groups of individuals communicate with one another, and also how they communicate out-with the network needs to be understood. The network can be used as a source of power by members in terms of limiting or denying membership to the

network. Such attributes of collective action networks are explored within the IDARI research, although from a methodological point of view, identification of the network members needs careful consideration.

The following section introduces a framework within which IDARI research into social capital can be operationalised. It introduces a game theoretic perspective that can enable an exposition of the process of social capital formation and change. It begins from a simplistic discussion to introduce key terms developed within rational choice theory, looking at cooperative behaviour. However, as complexity is increased with an increase in the number of individuals 'playing' these cooperative games (group and network formation), the simplistic models become problematic. To cater for this network perspective Ostrom's (1998; 2000) institutional and development framework model is endorsed, and considered the most developed for structuring research into social capital. To operationalise her framework, a micro-level analysis of the dynamics of trust and social interaction is required. As discussed in section 2 the concept of trust and location within social networks is crucial for understanding social processes in CEE. Therefore it seeks to find a means of conceptualising social capital and trust, while accommodating social structuration, which is consistent with the local context in CEE. Recent developments within the public choice literature offer a suitable framework to this end.

4 Cooperation and Social Capital

Cooperation between individuals is evident when there is visible action on a collective level (many stakeholders) for a predetermined goal (problem solving). Brehm and Rahn (1997) argue that all human communities confront collective action problems. Collectively, societies are better off when their members cooperate with one another to achieve common goals. Putnam (1993: 16) makes the link between social capital and cooperation, and argues that cooperation is facilitated if a community has inherited a substantial stock of social capital in the form of norms of reciprocity and networks of civic engagement. Cooperation is a governance structure, or the 'play of the game' (Williamson 1985; 1996), where the game is one of social interaction between individuals bound by an identifiable common problem or social dilemma. From this 'Williamsonian' perspective, cooperation is a strategy adopted for reducing transaction costs, or problem solving will be through the most economical and efficient governance structure; and Bowles and Gintis (2002) suggest use of the term 'community governance', for collective action problem solving.

They argue (ibid.: 425) that "communities often are capable of enforcing norms because a considerable fraction of members are willing to engage in the costly punishment of shirkers even when there is no reasonable expectation of being personally repaid for their efforts" and call this behaviour strong reciprocity. A strong reciprocator is predisposed to cooperate with others and punish non-cooperators even when this behaviour cannot be justified in terms of self-interest. Such community governance is an efficient mechanism for ordering societal relationships. Communities can solve social dilemmas, in instances that might otherwise appear as classic market or state failures, largely because the market or State does not have complete private or localised information. An effective community monitors the behaviour of the individuals within, making them accountable for their actions and punishing those individuals who deviate from social norms. In contrast with States and markets, it is argued that communities more effectively utilise the incentives that people have traditionally deployed to regulate their common activity such as trust, solidarity, reciprocity, reputation and personal pride amongst others. Bowles and Gintis (2002: 423) argue that

"...members use this information both to uphold norms and to make use of efficient insurance arrangements that are not plagued by the usual problems of moral hazard and adverse selection. This insider information is most frequently used in multilateral rather than centralised ways, taking the form of a raised eyebrow, a kind word, an admonishment, gossip or ridicule, all of which may have particular salience when conveyed by a neighbour or a workmate whom one is accustomed to call one of us rather than them."

Community governance is efficient in terms of the transmission of necessary information to design and enforce beneficial exchanges amongst a group of people, which is not available to formal State institutions or outsiders. Individuals, however, face incentives to behave selfishly, seeking the benefits of cooperation without contributing to the process. The factors affecting cooperative outcomes, as identified for the IDARI project are shown in figure 4 below.

As stated previously, within recent literature, sociologists, economists and political scientists converge on the concept of social capital to explain why certain groups and communities are able to resolve collective action problems cooperatively, while others are not able. Annen (2002: 450) contends that networks of personalised relationships are characterised by low enforcement costs, due to reputation, which leads to cooperative behaviour. He identifies a trade-off between self-enforcement and the magnitude of gains resulting from the network, depending on the inclusiveness of the network, the complexity of the setting and the network's capacity to communicate information within the network.

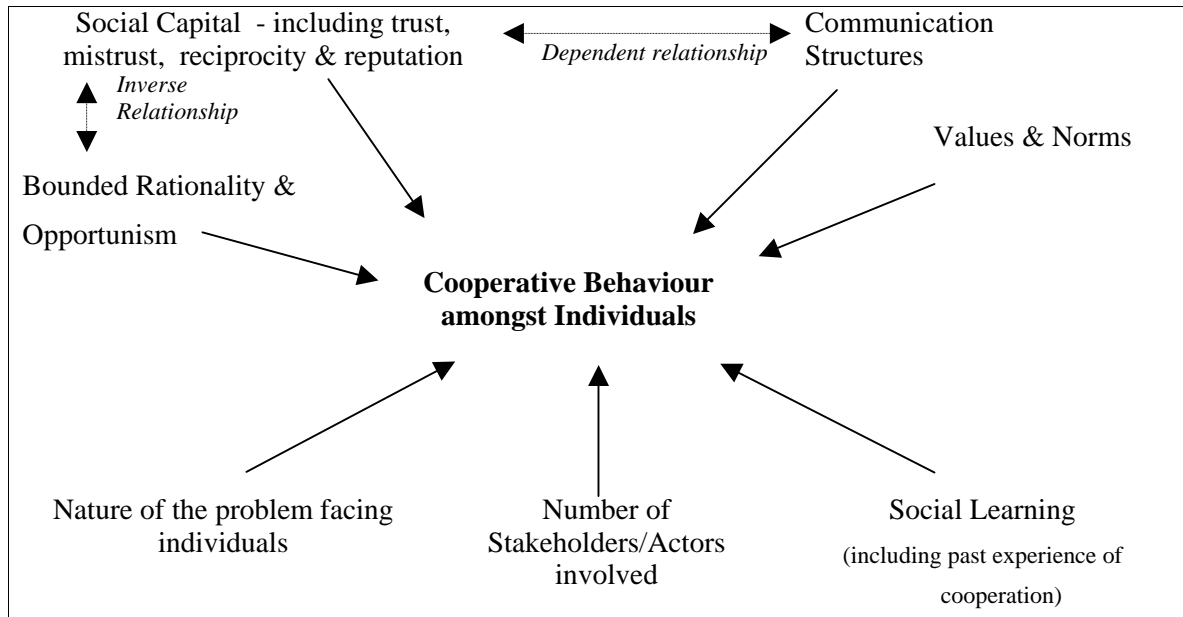


Figure 4: Factors affecting Cooperative Strategies

Within rational choice theory, the mechanism that connects interpersonal trust, repeated interaction with others, and sustained cooperation has its roots in research on the prisoners' dilemma. In single shot prisoners' dilemma games, trusting individuals cooperate more readily. In repeated prisoner dilemma games, successful strategies are 'nice' ones where the player is never the first to defect (Axelrod 1984), which assumes some initial level of trust. After the first play, successful strategies simply echo the behaviour of the other behaviour, reciprocating cooperation for cooperation, or defection for defection (tit-for-tat strategies). If cooperative individuals expect others to cooperate they are more likely to engage in cooperative endeavours, setting in motion a 'virtuous circle' in which trust promotes cooperation and cooperation promotes trust (Putnam 1993).

5 Cooperation and the Game Theoretical Approach

This section extends the prisoners' dilemma to more complex situations, drawing from Ostrom's (2000) framework of a behavioural theory of collective action and Lubell and Scholz's (2001) model of cooperation in collective heuristic action. Social dilemma refers to situations in which individuals make independent choices in an interdependent situation and is analysed in terms of rational choice, where each individual has a choice of contributing or not contributing to a joint benefit, or a *cooperators' dividend* (Ostrom 2000). Ostrom (2000) emphasised that trust and reputation also lead to cooperation or framing the governance structure in such a way that benefit the collectivity. Rule breakers are sanctioned by the

community or group (Bowles and Gintis 2002) and the reasons stated by Ostrom (2000: 484) are 1) ability to transfer information from those who can figure out an optimal strategy to those who do not fully understand what strategy would be optimal, 2) exchanging mutual commitment, 3) increasing trust and thus affecting expectations of others' behaviour, 4) adding additional values to the subjective payoff structure, 5) reinforcement of prior normative values, and 6) developing a group identity. Consequently, exchanging mutual commitment, increasing trust, creating and reinforcing norms and developing a group identity appear to be the most important processes that make communication effective. Individuals use communication opportunities to lash out verbally at unknown individuals who did not follow mutually agreed strategies. Ostrom's (2000) framework is important, as it stresses the importance of communication amongst individuals, which is also central to collective action problems in the IDARI framework (compare figure 1).

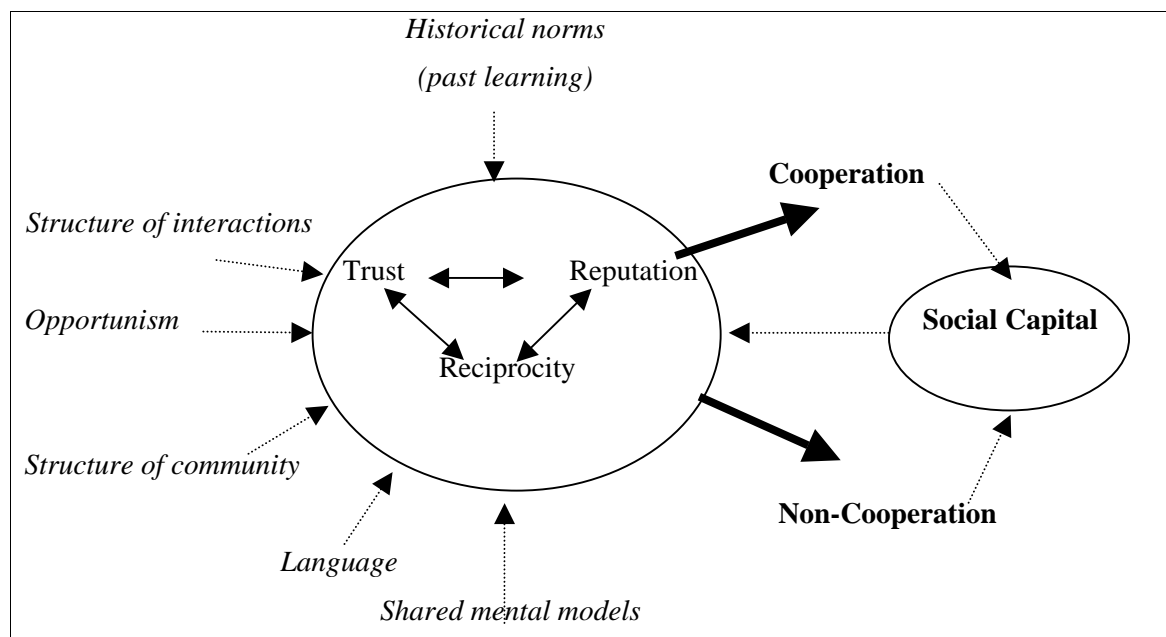


Figure 5: The Communication Process

Source: Adapted from Ostrom (2000).

In non-cooperative game theory, players are assumed to be unable to make enforceable agreements. In a social dilemma, self-interested individuals are expected to use communication to try to convince others to cooperate and promise cooperative action but then to choose the Nash equilibrium strategy when they make their private decision – simple communication is not sufficient to escape the dilemma. From this perspective face to face communication should make no difference in the outcomes achieved in social dilemmas. Yet empirical findings show that substantial increases in the levels of cooperation are achieved

when individuals are allowed to communicate face to face (Ostrom 2000: 483). Communication increases the rate of cooperation. Therefore the question arises as to whether it is a problem of asymmetric information that leads to non-cooperative situations or whether there are other processes affecting cooperation. During the communication process, social capital is enhanced or eroded through the establishment of trust, reputation and reciprocity (Ostrom 2000, see figure 5 above); learning is occurring at many different levels (individual, organisational, societal); communication is affected by bounded rationality and opportunism of different actors; and historical norms and values will affect behaviour and participation rates in the process. But communication does not spontaneously result in a governance structure, although communication is required to internalise the set of rules for each individual – to internalise the governance structure.

Annen (2002: 451) qualifies the definition of social capital by introducing a player's reputation for being cooperative within a social network, where a social network is a set of players and a pattern of exchange of information and/or goods among the players. Each player not only has to behave cooperatively, but others have to know that this is the case. Therefore it becomes important that other players know the trustworthiness, or reputation, of each player. From this perspective, the unit of analysis is on an individual level, as the beneficiary of social capital is a single player, where a measure for the value of social capital in total for a given community or country is the aggregation of all the individual benefits. He argues that the functional quality of social capital is to sustain cooperation amongst players in the network, and that social capital can thus be seen as a governance structure.

Reciprocity is all important, and enables application of the models to real life complex situations. Applying the collective action heuristic model of individual decision making to the situation in CEE, the most important element of reciprocity constraining the formation of social capital is the relationship between the individual and the State. If past experience with the socialist bureaucracy has damaged an individual's trust in the State, the mistrust may be difficult to overcome. Equally, if an individual has a bad experience with their neighbour or family member in a situation of cooperation, this can affect subsequent behaviour and attitudes toward cooperating - a process of social learning. Reciprocity is an especially important class of norms for Ostrom (2000: 489). The term refers to a family of strategies that can be used in social dilemmas involving 1) an effort to identify who else is involved, 2) an assessment of the likelihood that others are conditional cooperators, 3) a decision to cooperate initially with others if others are trusted to be conditional cooperators, 4) a refusal to cooperate with those who do not reciprocate, and 5) punishment of those who betray trust. All reciprocity norms share the common characteristic that individuals tend to react to the

positive actions of others with positive responses and negative actions of others with negative responses. Reciprocity is a basic norm taught in all societies, and in these 'games' there is a need for using retribution to some degree to punish a defecting player. Individuals do not inherit particular reciprocity norms via a biological process. The argument from Ostrom is more strategic - individuals inherit acute sensitivity for learning norms that increase their own long-term benefits when confronting social dilemmas with others who have learned and value similar norms. The norms or strategies for reciprocal behaviour are:

1. Always cooperate first; stop cooperating if others do not reciprocate; punish non-cooperators if feasible
2. Cooperate immediately only if one judges others to be trustworthy
3. Once cooperation is established by others, cooperate oneself; stop cooperating if others do not reciprocate; punish non-cooperators if feasible
4. Never cooperate
5. Mimic (1) and (2) but stop cooperating if one can successfully free ride
6. Always cooperate

Lubell and Scholz (2001) respond to Ostrom's (2000) request to develop a behavioural theory of collective action by exploring the behavioural relevance of reciprocity and niceness in explaining cooperation from subjects, although in laboratory collective action experiments. They include the interaction between collective action strategies, past experience and institutions. They argue the collective action strategies of individuals are best understood in terms of cognitive heuristics that generate them. The set of heuristics in a given society represent specialised cognitive mechanisms for solving social dilemma problems, which they believe are an ancient and central part of human society. They suggest that heuristics are biased in favour of cooperation: individuals gain some of the potential advantage of reciprocity while protecting against exploitation. A collective action heuristic combines the introspection heuristic with bounded rationality (ibid.: 161). This can be seen as a constrained experiential learning process.

This learning process is important. Given the evolutionary advantage of a *tit-for-tat* strategy, it could be tempting to argue that society dominated by nice, reciprocal individuals could evolve over time. In such a society, cooperation would be the individually optimal choice; so as to ensure that the mutual benefits of cooperation are realised by each individual. However, as strategic complexity exists and reciprocity becomes more difficult to detect in real life situations of many actors, the heuristic process that individuals use to cope with this

complexity becomes more important. Also, the evolutionary process which would lead to cooperation assumes that the game is played by the same actors over time, which is not the case. Lubell and Scholz (2001: 163) introduce three models of decision making in collective social dilemma situations, shown in table 1.

Table 1: Models of Decision-Making

| | Models | | |
|---|------------------|---|--|
| | Optimal-Response | Myopic | Collective Action Heuristic |
| Levels of: a) reciprocity & b) niceness | High High | a) High b) Assumed low | a) Mixed b) Mixed |
| Possible Outcomes: | Cooperation | Unclear, dependent on 1 st strategy played | 1) Non-cooperation; 2) nice, non-reciprocal cooperation; or 3) sceptical cooperation |

Source: Lubell and Scholz (2001: 163?)

The first is the *optimal-response model*, with full information, so the process (heuristics) by which cooperation is achieved is not necessary to analyse. All players are conscious of the benefits of cooperation, and this model corresponds to John Stewart Mill's 'self-enlightened society', with high levels of social capital⁷. Because individuals are bounded rational, they do not calculate a complete set of strategies for every situation they face. Few situations in life generate information about all potential actions that one can take, all outcomes that can be obtained, and all strategies that others can take. In a model of complete rationality, one simply assumes this level of information, which is unrealistic. They call the second model *myopic*, assuming that individuals respond only to the initial behaviour of other players, which is easily observed. The myopic model simply ignores the complex patterns of play that emerge after the first round of play. The third model they present is the *collective-action heuristic*, which incorporates a bounded rational learning process that follows the optimal-response model under some conditions, but emulates the myopic under others. Within the second and third models, there are two possible outcomes – a nasty non-reciprocal environment, (which corresponds to Hobbesian society, thus where no cooperative behaviour is evident) or an outcome of cooperation - based either on a 'nice non-reciprocal' environment, which can be exploited by rational players or a 'sceptical cooperative environment', where through repeated

⁷ Parallels can be drawn with Coleman's (1998) treatment of social capital, where he emphasised its role in education, where education can be seen as a source of knowledge, or increasing self-enlightenment.

interaction with their environment individuals are willing to cooperate, through a process of learning.

6 Conclusion

This paper has explored the relevance of social capital to CEE, from a conceptual and an operational basis. It argued that social capital is an important analytical concept for explaining social processes in CEE, and this paper emphasised three categories of social capital with particular relevance to the situation in post-socialist rural areas. These three categories were based on a rational choice model, a civic engagement and voluntary organisation model, and on network theory. Through an integration of sociological and rational choice approaches, the concept can be applied to CEE. However, care must be taken when operationalising the concept in empirical research. The preferred approach to empirical research would be through thorough investigation of small group/network processes for cooperation in CEE, to expose the relevance of interpersonal trust, reputation and reciprocity. Although the essence of social capital is as an aggregate concept, it has its basis in individual behaviour. The aggregation is on a group, community or network level given the interactions of individuals. The models described in this paper specify social capital at the individual level, as the reciprocal relationship between civic participation and interpersonal trust. In participating with their community in solving problems or social dilemmas, the individual creates a reputation. The models recognise bounded rationality, the influence of informal institutions (norms and values) and the effect of social learning on the process of cooperation. A difficulty with these models is that they do not incorporate time very well. This will prohibit an inter-temporal analysis of social capital. The variables within the model are in a constant state of flux – norms and values change, trust can turn to mistrust and vice versa. This can cause individuals to cooperate in some situations, but not in others, so an explicit recognition of a change in social strategy should be incorporated.

Of particular importance in this model is the recognition of the communication structures affecting cooperation, as these also affect norms and social learning. By focusing on communication, the institutional setting within which this process occurs is clarified. It also allows for the concepts of trust, reciprocity and reputation to be explored, as causal effects on the communication process. A study of communication processes requires an analysis of the social framework influencing participation of actors in problem solving and rural development initiatives, thus taking a network approach to social capital. It allows for the integration of cognitive concepts - such as learning, language and shared mental models – into

institutional theory. The frameworks presented in this paper can be described as a micro-level construction of social capital, where the composition and practices of local level interaction are the focus of analysis. Although the macro structures within a country or region affect levels of social capital – such as legislation, types of regimes, level of decentralisation and level of participation in policy making - the behavioural attributes of individuals requires further exposition, and will be the focus of IDARI research. The assumption of macro structures in CEE affecting trust, reciprocity and communication between individuals, brought about by the legacy of socialism, should not be the only focus of studies in social capital formation. Rather, how communities adapt and organise themselves within these macro structures through collective heurism is worthy of further investigation. The propensity to cooperate is determined by local organisation and localised responses to social dilemma

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