

Social Capital and Local Development

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Abstract

The concept of social capital has become more important to understand contemporary economic development in the era of globalisation. This, however, requires a theoretical framework that could help to distinguish between forms of social capital with positive effects on local development and other forms that may have negative consequences. The paper argues that to understand this difference, two conditions are crucial. First, social capital has to be considered in terms of social relations and social networks, rather than in terms of culture and civiness. The second condition is that the interaction between social capital and other institutions, especially political institutions, have to be carefully analysed. Therefore, the paper points to the crucial role of political factors —of the “embedded autonomy” of political action—in favouring a positive role of social capital in local economic development.

Key words

Social capital, local development, globalization, development policies

Over recent years the role of the institutional context in economic development has attracted growing interest. This is also indicated in the frequent reference made to “social capital”. However, this concept is used in different ways and with diverse meanings. Sometimes it refers to the capacity for co-operation, to trust and civiness – and therefore to a particular form of local culture; at others, it is used as a sort of synthetic indicator of rich tangible and intangible external economies. In yet other cases, a more appropriate

and cautious reference is made to the network of relations which binds individual and collective actors, and which can promote co-operation and trust but can also create obstacles to local development.

One way of dealing with the increasing importance which local institutional contexts seem to have taken on in contemporary economy is therefore to focus on the role of social capital. Is this concept really helpful? And if the answer is positive, under what conditions? In the following remarks I will try to respond to these questions with particular reference to local economic development¹. My contention is that if used with greater care and precision, and if not overloaded, the concept of social capital can help us not only to understand local development, but also to shape more appropriate policies. Of course, local development stands here for autonomous and self-sustaining development in an open market; something different from a sheer increase in income that is dependent on the re-distributive policies of the state or international organizations.

Problems of definition

The concept of social capital first began to be used in the sixties, mainly in the work of the French sociologist Pierre Bourdieu (his first formulation appeared in Bourdieu, 1980). However, it was above all in *Foundations of Social Theory* by the American James Coleman (1990), that it came into wider use and was linked to problems of development. However, it can be shown that the origin of the concept, even if not the term itself, is to be found even further back in time, during the period of the first developments in economic sociology. For example, an implicit use of the idea of social capital can be found in the famous essay by Max Weber, *The Protestant Sects and the Spirit of Capitalism*².

In this essay, Weber mentions an episode that occurred during his trip to the United States, when he took part in a Baptist ceremony. The people waiting to be baptized had to enter the icy water of a pond dressed in their clothes. One of Weber's relatives, who had been living in the United States for some time, pointed out a young man who was taking part in the ceremony and explained that this young man wanted to open a bank. Admission to a Baptist sect was important to show the moral qualities necessary to gain the support of the sect in starting an economic activity, for instance in order to get credit or reputation to attract clients. These would not necessarily be from the same sect as the entrepreneur, but his belonging to one would be sufficient guarantee of his moral standards in business.

Developing this argument in theoretical terms, Weber maintained that the Protestant sects had been extremely important in the American economic growth. This influence developed through voluntary associations exercising a strong control over the individuals who were admitted to them. Members of the sects had to show certain ethical qualities which facilitated economic exchanges, not only between them but also more in general, because they provided a social recognition which external actors took into account. Therefore, Weber's essay already included a series of elements that are crucial to define social capital:

- (A) A network of personal relations of a non-economic nature (in this case of religious membership, but they can also include kinship, ethnic or ideological membership);
- (B) The function of social networks was to enable the circulation of information and trust, leading to economic consequences for development because they fostered exchanges, both in terms of credit and relations between firms, or between firms and

final clients (nowadays we would say that they lower the costs of transaction in the use of the market);

(C) Information and trust were referred to by Weber in terms of moral qualities, which is to say – in contemporary terminology – to qualities that would restrict opportunism as recourse to cheating or fraud in business. However, information and trust can also improve the circulation of cognitive resources of a high economic value, that is, of uncodified knowledge which would be tied to the production activities of goods and services and therefore to the possibility of collaborating in processes of risky innovation.

In other words, although he did not use the term social capital, Weber did in fact conceive the idea of social networks as an instrument to influence the formation of entrepreneurial activities, thereby facilitating the economic development of a particular area. Nevertheless, like the other scholars who have used this term recently, in the essay mentioned above he evaluated the possible consequences of these networks of social relations for economic activities in positive terms.

This outcome, however, cannot be given as granted. As Granovetter (1985), Coleman (1990), and more recently Portes (1998), have pointed out, the impact of social networks on economic activities can be very different. In some cases the information and trust that circulate by means of personal relationships can limit opportunism and facilitate economic co-operation. But networks can also be an instrument to avoid or elude competition, and can thus reduce efficiency by forms of (more or less legal) collusion between the actors. Moreover, networks that are particularly dense can exercise such a strong control over individual behaviour as to discourage innovation in economic fields.

This leads to a problem that is crucial to the use of the concept of social capital in the study of economic development. In which cases does it have positive consequences for development? What variables influence this outcome?

In the essay by Weber mentioned above, it is clear that particular importance is given to the cultural identity shared by the social group which is involved in the sects' network of relations. The Protestant ethos – whatever the depth of belief by its followers – established certain standards of economic ethics in terms of commitment to work and honesty in business, and therefore limited particularistic and collusive uses of the network, for example, agreements which would damage consumers or obstruct development. However, in other parts of his work, particularly in *Economy and Society* (1922), Weber developed another analytical path. Here we can see the idea that the positive functions of the social networks of a religious type do not depend only on cultural conditions but also on political ones. The rule of law should be well established and predictable, and the bureaucratic structures of the state should function according to universal rules. Only under these conditions social networks could sustain the modern capitalism based on the market. On the contrary, their absence would lead to what Weber called “political capitalism” –that is the traditional use of violence by the state or by criminal groups in order to get economic resources. In other words, without an efficient state, social networks are more easily able to develop their collusive potential in both economic activities and in the public institutions, leading to the particularistic appropriation of political resources (for example, contracts, licenses, jobs, subsidies, etc.).

Therefore, it is not possible to define *a priori* the effects of social capital on economic development. Only an extremely detailed and historically oriented analysis can

help clarify how variables of a cultural, political and economic type – interacting between them – not only foster or obstruct social capital, but also condition the consequences which its use can have on local development (Granovetter, 1985,1990). In this perspective, it is thus appropriate to set out a definition of social capital which is sufficiently open with respect to its possible consequences on the economy.

Social capital can be considered as a set of social relations of which a single subject (for instance, an entrepreneur or a worker) or a collective subject (either private or public) can make use at any given moment. Through the availability of this capital of relations, cognitive resources - such as information - or normative resources - such as trust - allow actors to realize objectives which would not otherwise be realized, or which could be obtained at a much higher cost. Moving from the individual to the aggregate level, it may also be said that a particular territorial context is more or less rich with social capital depending on the extent to which the individual or collective subjects of the same area are involved in more or less widespread networks of relations. It is to be stressed that this definition, taken from Coleman (1990: 300), places a greater emphasis on social networks as the basis of social capital rather than on shared culture, trust and civicness, as in the well-known studies by Robert Putnam (1993) and Francis Fukuyama (1995). I shall return to the distinction between a structural conception and a more cultural understanding of social capital later, when dealing with the problem of the origins of social capital.

Why has social capital become more important?

Over recent years interest in the positive consequences of social capital on economic development has grown. As a matter of fact, the prior references to Weber show how this

theme was already visible in the first developments of economic sociology. Nevertheless, it can be noted that there was a subsequent decline in this perspective and this coincided with the decline of studies on the origins and first developments of eighteenth century liberal capitalism. With the move to forms of more organized capitalism, the interest in social capital – understood as networks of social relations which facilitate economic exchanges – disappeared or weakened and became marginal. The processes of bureaucratization of the firm and of re-politicization of the economy through the growing role of the state and industrial relations began to dominate the stage. Fordism and Keynesianism now became the focus of attention.

One fundamental feature of Fordism is that it tended to further differentiate the economy from society : it reduced the importance of factors such as personal entrepreneurship and the local institutional context, and therefore of social capital in economic development. Large vertically-integrated firms exploited the new technologies to realize economies of scale, substituted the market with hierarchy, replaced the entrepreneurs with managers, internalized the different productive stages, and controlled the labour and product markets. In other words, the firm became more autonomous from its environment. In this framework the non-economic factors which most influenced development were mainly of two types. At the micro-level, they involved the organizational capacity of the firm – the “visible hand” of the organization (Chandler, 1977). At the macro-level, state policies were crucial, both the Keynesian ones which aimed at stabilizing the market, and policies that attracted large external firms by means of incentives and infrastructures for backward areas.

All this does not mean that social capital lost any influence, but certainly the Fordist-Keynesian model of organization reduced its role. It is only in the last twenty years, with

the collapse of this institutional model, that the focus has turned once more to social capital. Stability was the key word for the old model, which guided the “golden age” of post-War development. In the last twenty years it has been increasingly substituted with another: flexibility. The search for a greater flexibility – viewed as the rapid adaptation to a market which is increasingly fragmented and variable – together with the emphasis on higher quality of products became necessary choices for firms producing in developed countries, and therefore with higher labour costs.

We know that it was the smaller firms, especially if they worked together in local systems with a certain degree of specialization (industrial districts), which initially took advantage of these new opportunities. This trend was also favoured by the new technologies which reduced the costs of flexible production of goods in limited series. However, later on large firms began to adopt the strategy based on flexibility and quality and restructured their organization. They gave greater autonomy to decentralized productive units, specialized in single product lines; they modified the Taylorist model of work organization, making greater flexibility one of the aims, but also enhancing the demand for higher professional skills and for involvement on the part of the workers. In addition, they began to cooperate with small and medium-sized firms to reduce the costs and length of innovation processes. This also forced the large multinational firms to locate their productive units into regions of high specialization where it would be possible to develop cooperative relationships with small and medium-sized firms as subcontractors.

It is worthwhile noting here how these processes – which are by now well-known – modified the preceding picture and tended to give social capital with a growing role. Indeed, it can be said that in the processes of local development social capital has

increased its influence with respect to physical and financial capital. The search for flexibility and quality led not only to a restructuring that increased the autonomy of the firms' internal structures but above all led to a greater need for external cooperation. Networks of firms (or districts) and large networked-firms were formed which became more dependent on the willingness of the workers and other firms to cooperate effectively to obtain flexibility and quality. This increased the potential costs of transaction and therefore the value of social capital – of the networks of social relations rooted in a certain territory – in the productive processes and in innovation. Naturally, social capital is not a sufficient condition for local development. Indeed, it is necessary to contrast the tendency to overload the causal influence of this factor which dominates much of the literature on this topic (Bagnasco, 1999). It should not be forgotten that technical knowledge, and therefore human capital, as well as infra-structural equipment dependent on physical capital, and obviously financial capital, are also important for local development. Nonetheless, it is worthwhile stressing that, in the new economic frame, social capital can significantly affect the creation of appropriate human capital, and the efficient allocation of both physical and financial capital, through effective cooperation between local actors.

To better clarify this feature, one has to take into account that the search for flexibility and quality are now more closely tied to processes of co-operation which imply the sharing of a language, some forms of tacit knowledge that allow the better exploitation of technologies and codified organizational rules (Becattini and Rullani, 1993). Social capital facilitate the development of tacit knowledge as a competitive resource because it fosters the circulation of information and trusting relations between subjects within the firms and between different firms. In other words, social capital

allows tacit knowledge and human capital to be exploited as a competitive advantage tied to productive specialization.

There is yet another factor whose influence on external economies should not be underestimated. In this case it is not only the network of relations between individuals but that between organizations, or collective actors, which is important. A good network of relations between interest organizations and public institutions can favour the improvement of infrastructural facilities and the efficient provision of economic and social services, as well as the influx of capital and investments of both local and external firms. In fact, it has been demonstrated that the policies for local development are more effective when they are formulated and implemented through a close cooperation between public and private actors (Sabel, 1988; Streeck, 1992; Cooke and Morgan, 1998).

A final observation on the importance that social capital gives to the territorial dimension of development. In what ways does globalization influence this process? Sometimes it is held that globalization tends to reduce the advantages of localized networks. In effect, individual firms – above all the multinationals, but also the smaller firms – can search, more easily now than in the past, for more advantageous conditions by moving from one country to another and by combining in their productive process inputs from firms and local partners in different areas, through complex organized structures. The improvement of communications and information technologies help this process. All this tends to rapidly alter the localized benefits of a particular territory. Nevertheless, the empirical evidence suggests that the result is not a simple tendency towards the de-territorialization of productive processes, but rather a greater competition between regions in which the resource of social capital is crucial. Productive growth and

localization of external investments tend in fact to concentrate where the external economies and productive specialization are stronger³. All this can bring about new troubles for those territories which do not manage to adapt, but it also opens up new possibilities for other areas which are able to improve their position through the use of social capital, even if they are initially less well endowed with human and financial capital.

Therefore, it can be said that globalization has contradictory consequences for local development. It may weaken some areas not only as a result of problems of costs, but also because these do not manage to keep up with innovation. It may however favour other areas that exploit their social capital to attract external firms and to take advantage of the greater opportunities in terms of a growing market for exports that open up. On the whole, it is to be stressed that the importance of social capital increases, in comparison to the past, the possibilities of local actors to affect the development of their region. This process does not necessarily depend any more on incentives or other cost advantages that manage to attract external firms, but on the capacity to use social capital to develop a certain amount of knowledge and of specialization which will guarantee the future of the area in the most solid way. Indeed, we can conclude that the more social capital is capable of making external economies grow and of rooting knowledge in a particular local context, the less the future of that area will be dependent on a sheer local dynamism tied to the localization of external initiatives. These, in fact, to the extent that are based only on cost advantages, constitute a weak and unstable resource and can only provide a risky and short-term adjustment in the era of globalization.

When does social capital favour development?

From the discussion above it should now be clear the importance of social capital for the new forms of economic organization. But under what conditions does its use favour local development ?

Coleman has underlined how this type of capital – unlike human or financial capital – has the nature of a collective good. Its advantages are not appropriable by individuals, but are enjoyed by all of those who participate in the network. It is for precisely this reason that single actors have less incentive to contribute to its production. This characteristic explains, as Coleman pointed out, why “most forms of social capital are created or destroyed as the by-product of other activities” (1990: 317). Thus, for example, the existence of relations of religious, ethnic, political or other types of membership can serve as a basis for the growth of social capital that can be spent in the economy. This does not exclude, as Coleman noticed, the possibility of explicit and intentional attempts to construct social capital for economic objectives⁴. Nevertheless, from the point of view of local development – which is what interests us here – it is above all the supply of social capital at aggregate level in a particular territory which is more important. The overall availability of networks of social relations spread between individual subjects (firms, workers) and collective actors (interest organizations, public institutions) can in fact condition the paths of development.

It is precisely this characteristic, which is associated with a good supply of social capital at aggregate level – usually the by-product of non-economic relations in a territory- which also explains why several studies, such as those by Putnam (1993) and Fukuyama (1995), tend to identify social capital with a co-operative culture and to highlight its path-dependent character, its rootedness in the past history of a territory. However, the perspective followed by these works leads to two kinds of risks. First of all,

there is that of slipping into a culturalist explanation which is rather vague with regard to the origins of the phenomenon, and which underestimates the role of political factors (Mutti, 1998; Bagnasco, 1999). Secondly, as I have already mentioned, the consequences of social capital for local development are not always positive, and it is precisely the under-evaluation of politics which makes it more difficult to distinguish under which conditions social capital can have a favourable impact for local development, instead of generating collusion, patronage, political dependence or even corruption and criminal economies.

Let us examine the first type of risk. If social capital is viewed essentially in terms of cooperative culture, diffuse trust and civiness, there is the danger of a vague explanation of the origins which will trace the problem back to the past, and will underestimate the role politics plays in reproducing and orienting social capital. On this view, social capital is in fact conceived as a contingent phenomenon, rooted in the historical process; a cultural feature of a region which is reproduced through processes of socialization, in particular through the family, the school, and associations. For example, in this perspective, as Putnam suggests in his analysis of regional differences in Italy, the South is still paying the price, in terms of cultural heritage, for having missed the Communal experience in the medieval period, several centuries ago. However, he overlooks how politics has been able to forge social networks even in recent times, feeding patronage and political capitalism, and even forms of social capital and criminal economies related to the Mafia. There is therefore an under-evaluation of the political factors and of the complex processes of interdependence between socio-cultural and political conditions and economic outcomes.

This brings us to the second type of risk – that of not being able to distinguish between the positive effects of social capital for local development and others more negative consequences. This distinction becomes possible if social capital is not understood generically as a willingness to cooperate based on a shared culture, but as a network of social relations open to diverse outcomes from the economic point of view. In fact, it should be remembered that there is always a particularistic potential in networks. As Coleman put it, social capital involves “resources which can be used by actors to pursue their interests” (1990: 305). These interests can however be defined in a variety of ways. Thus, in some cases social capital can generate trust and information which help economic development – and this is particularly true of situations in which, as noted above, greater flexibility is requested in the economy. However, in other contexts the operation and consequences of the networks can be different or even opposed. In fact, these are an instrument by which information and trust circulate between the subjects involved, increasing their power with respect to other external actors. As a consequence, there are situations in which the networks function at the expense of the consumers or other firms, and allow competition to be avoided – a kind of collusion which has worried economists since the times of Adam Smith. Ethnic economies can be considered as an example of this ambivalence of networks. The concentration of ethnic groups in some areas can favour the growth of economic activities through networks between firms and between local entrepreneurs and workers. On the other hand, these relationships may constitute barriers to the entrance of other subjects, or they can limit local development and innovation by posing strong social pressures on individual behaviour⁵. Not to mention that those networks which include criminal subjects, but also members of the police of the bureaucracy or politicians, are an essential instrument of the criminal economy. The

Mafia has its own social capital, which is even more important given the illegal nature of its activities.

In order to avoid these two types of risks in the use of social capital, it might be more productive not to focus on its origin but rather on the conditions that may foster positive effects on economic development. To proceed along this path one should ask not only whether networks of social relations tied to family, kinship, ethnic or religious communities do exist, but whether politics has favoured their transformation into positive resources for local development. It is precisely this question that has remained unanswered in the debate surrounding social capital⁶. The answer would seem to lie in the capacity of politics to modernize itself, to function according to more universal principles that balances and control the particularism that is intrinsic to networks.

This is not intended to suggest that the culture inherited from preceding history does not count. If it favours co-operation in a certain area, it is clearly an important resource; we have already evaluated this possibility by recalling Weber's study of Protestant sects. Cultural identity plays an important role in orienting behaviours that develop through the networks that it feeds. Nevertheless, the concept of social capital is useful above all in a dynamic perspective. A favourable cultural identity can thus deteriorate – or even regress to forms of social capital that block development, if politics does not provide the necessary conditions. On the other hand, still in dynamic terms, even in areas where there are no extended cultural identities to foster co-operation, particularistic networks, which are more closed and limited (for example family, kinship or local networks) can be oriented by political action towards forms of social capital with positive effects for local development. In addition, new more formalized networks can be

created, for example between collective actors, which in their turn stimulate the formation of relations between individual actors (e.g. firms, workers).

As Reinhard Bendix (1967) suggested several years ago, recalling Weber, it is important to evaluate whether processes of “selective modernization” develop. This means that one should assess if the networks are faced with cultural and institutional barriers blocking their attempts to appropriate political resources (whether regulatory or distributive) in a particularistic way, or are rather pushed towards the market. If this does not happen, and if politics is not modernized, there will instead be a push towards the formation and use of the networks that develop along the path that Weber called political capitalism, based on a predatory use of political resources. On the other hand, a modern politics, more autonomous from particularistic interests, increases its capacity to provide collective goods that are essential for economic development (e.g. infrastructures, services, security, rule of law, etc.). It is in this framework that social networks can function as a resource for local development: because they may be used in the economic sphere, they contribute to the widening of the market and they have a positive impact on its operation through the provision of information and trust.

At this point a second factor which fosters the positive effects of local networks can be introduced: the market. Once local development has been triggered, the pressure from competition continually limits the possible negative consequences of particularism. First of all, it tends to sanction inefficient behaviour. If several members of the network, for example relatives who work in a firm, or some sub-suppliers, diverge too much from efficient behaviour, the market signals this disfunction rapidly and pushes them to remedy it. Secondly, the market sends signals that suggest an updating and redefinition of social capital. Certain characteristics of the social network can function well in a given

period, but can constitute a constraint in a successive moment and therefore require a change. For example, certain kinship relations initially useful in the first stages of development can act subsequently as a constraint and need to be integrated by different networks, based more on cooperation between collective actors (e.g. interest organizations, public institutions). Naturally, the market sends signals but it does not guarantee that new and appropriate solutions will emerge. This depends on the ability of the local actors to interpret the situation and to deal with it, by generating new forms of social capital. If an appropriate reaction does not take place, regressive localism and risks of lock in can occur (Grabher, 1993).

These observations suggest that the relation between social capital and local development is complex and that it changes over time, and also that it is not reducible to the positive impact of a civic culture which is favourable to co-operation. In fact, the role of politics in mediating the relationship between networks and the market is crucial. The Bendix's idea of a balance between modern features and traditional social relations as the key to economic development can also help us to read the most interesting experiences of regional development over the last few decades. Social particularism, i.e. the traditional social structures (e.g. family, kinship, community, religious, political, ethnic subcultures), as resources for development have been widely discussed in this regard, reversing one of the classic assumptions of the theory of modernization. In fact, however, their relationship with economic development seems more complex. What makes the difference is the combination of these phenomena and a modernized politics, autonomous from civil society. This is the lesson that can be drawn from a careful reading of the recent experiences of regional development illustrated by the well-known studies on the Third Italy, or on other European countries. Much research on the development of the

East and South-East Asia seems to point in the same direction – although in a different institutional context - especially in comparison to Latin America. In this region politics seems to have hindered the productive use of social capital linked to traditional structures, because of its lack of autonomy from social interests and the weakness of state structures⁷.

Particularly interesting in this perspective is the comparison that can be made between the so-called Third Italy (Centre and North-East) and the South of Italy. Contrary to the hypothesis put forward by Putnam, social capital is less absent in the South than one could expect by defining it in terms of a civic culture inherited from a distant past. If social capital is more grounded in networks (e.g. family, kinship, community), it is not the lack of these networks which seem to have hindered development in the South, but the lack of a modernized politics. While in the Centre and North a modernized politics favoured a productive use in the market of social network, based on kinship and community ties, in the South it rather fostered political capitalism: the use of social network for a collusive appropriation of public resources⁸.

Some implications for development policies

Is it possible to influence social capital through politics, and therefore to improve local development? A secure answer to this question is difficult to give. Some hypotheses can however be presented on the basis of the preceding discussion. If the concept of social capital is tied to that of networks of relations, a “possibilistic” vision (Hirschman, 1971), more open to political action for development can be better grounded. In this perspective, one should not overlook that in backward areas there is generally a remarkable possibility to form social networks, tied to the family, the kinship,

the local community or other traditional institutions. These networks, even when characterized by strong and concentrated ties, rather than by extended solidarities such as those related to ethnic, religious or political subcultures, can be activated and oriented by purposeful and appropriate political action towards the production of a social capital favourable to development. In this way, the growing role played by social capital in the current organization of the economy could be exploited.

What kinds of actions can be considered in this respect? Attention can be drawn to two distinct but interdependent features. The first is related to *politics*, the second concerns the *policies*. Politics involves the mechanisms of consensus-building and the selection of political and bureaucratic élites. From this point of view, it seems important the degree of autonomy of politics from economic and social interests –that is to say, its capacity to deal with collective problems. Even an initial step of this kind could have important consequences for local development, in the sense that it sets up barriers to the inefficient appropriation of public resources by local networks that involve politicians, bureaucrats and businessmen. As is widely recognized, this is a problem of crucial importance in backward areas with “predatory states” (Evans, 1995). In these situations, which resemble Weber’s “patrimonial state”, the bureaucracy does not function according to universal rules and is not selected on the basis of universal criteria, but is influenced by relations of personal dependence on the holders of political power. These latter, in their turn, are often tied to businessmen by particularistic relations, based on the appropriation of public resources. The modernization of politics constitutes, therefore, an essential requirement for development. This is also because a change of this type sends an important signal to local actors, and push them to mobilize in the market sphere rather than in politics. In addition, one should take into account that a modernized politics has

more interest in improving the efficiency and effectiveness of bureaucracy. This, in turn, produces more collective goods and external economies that favour the use of social capital in the market.

The role of bureaucratic structures leads us to the second aspect, that of *policies*. Politics can set up cultural and institutional barriers to the particularistic use of networks, and in this way can contribute to economic growth. But is it possible to promote more directly and actively the use of social network for local development through purposeful policies? This aspect has already been discussed, with reference to the mechanisms for “associative regulation” and “concertation” at a local and regional level, both in the theoretical debate and as a result of various practical experiences (Sabel, 1988; Streeck, 1992,1999; Trigilia, 1991; for a general overview, see Cooke and Morgan,1998). The working out of “territorial pacts” between private (interest organizations) and public actors (local and regional governments) has called attention in various European countries and has also influenced the approach to regional policies and regional development adopted by the European Union. This trend is certainly interesting, especially in comparison to a few years ago when development policies were mainly oriented towards the use of incentives to attract external firms or to other instruments aimed at lowering costs, especially labour costs, to compensate the lower levels of productivity in backward regions. Nowadays the idea of local development as being tied to the capacity to learn, and to developing specialized areas of knowledge which can add to productivity rather than compensate for its lower level, has gained greater currency. At the same time, more attention is paid to social networks at the local level. As underlined above, a good endowment of social capital allows for policies which are more efficient and effective for promoting human capital and specialized knowledge, and for providing

collective goods such as services for firms and infrastructure; but it also allows the “hidden resources” of a particular area to be better exploited. In other words, social capital can be a strategic resource to favour the competitiveness of a certain territory and therefore its positive integration in a globalized market.

From this point of view, there is a growing need for measures that support, through both financial and organizational aids, integrated projects of local development based on the formation of co-operative networks between individual subjects and collective actors. The attraction of external firms through financial incentives should be carefully linked to these projects in order to improve local skills. However, these new development policies are not easy to pursue. At least two conditions seem particularly important for their success.

First of all, the commitment of non-local actors through financial and organizational aids is needed to stimulate the cooperation between local subjects. In fact, this does not emerge from the sheer integration of a particular territorial context in the market; worse than that, the opening to the market could push for forms of economic adaptation based on the regressive use of social networks to get an increase in income (political corruption, criminal economy, etc.). Therefore, it cannot be left up only to the market the difficult task to overcome the institutional constraints that affect the production of collective goods and the performance of the market itself.

However, it is also important that financial and organizational aids to foster local co-operation do not favour the formation of collusive coalitions interested in the particularistic appropriation of external aids. Therefore, the second condition is related to the capacity of non-local public institutions (regional, national and in Europe those of the EU) to help local actors define their projects, but also to their ability to evaluate and

select the best ones. In other words, a virtuous competition between regions should be stimulated. For this reason there is a need for the measures providing financial and organizational support to be feasible and rapid. Organizational support is particularly important to help local actors in working out sound development projects.

Therefore, underlining the role of social capital for local development leads to neither a simple devaluation of the role of the state in favour of the market nor to a sheer localism. This new perspective moves rather in the direction of rethinking the role of the state in the development policies for backward areas. Public institutions at a non-local level should help “from above” the local actors to mobilize “from below”; they should help them to produce and use social capital efficiently as an instrument to increase specialized knowledge, infrastructures, services and forms of integration between firms, thereby strengthening competitiveness. For a strategy of this type to work it is necessary to involve local actors, but the autonomy of political action is also a necessary condition, namely, the capacity to resist – at both local and higher levels – particular interests and to pursue collective objectives. It is the “embedded autonomy” (Evans, 1995) -the autonomy of a political action that is at the same time socially embedded at a local level- which can contribute in an innovative way to local development.

Recent changes in the organization of production, as well as the process of globalization, are increasing the importance of social capital for local development. This opens up more space for purposeful action on the part of local subjects to take control of their own destiny, contrary to the pessimistic frame of path-dependency. Well-defined policies can help these processes by encouraging networks but also by restraining their attitudes to collusion and rent-seeking. In this perspective, the problem of economic development should not be reduced to a mere question of costs and incentives. Today,

even more than in the past, economic development has a social dimension that cannot be ignored.

Notes

¹ Over the last few years the concept of social capital has increasingly been used for a plurality of themes, including politics, social control and deviance, education, and even female fertility, health and rates of mortality. For an overview, see Foley and Edwards (1999).

² This essay, written after Weber had been to the United States and published in 1906, was subsequently revised together with the more famous one on the protestant ethic, and republished later with other sociological studies on religion (Weber 1920-21).

³ A useful and updated reconstruction of the debate on this topic can be found in Storper (1997). On the role of the “external Marshallian economies” to understand the industrial districts of small firms, see Becattini (1990). Since then the importance of this phenomenon in relation to the restructuring processes of large firms has emerged., see Sabel (1988).

⁴ For example, in institutional economics the concept of “clan” is particularly important as a device by which to regulate the relations between firms informally, and which is searched for intentionally in order to deal with complex and repeated transactions (Ouchi, 1980).

⁵Portes (1998) focuses on this phenomenon with particular reference to the United States (Portes and Sensenbrenner, 1993).

⁶ Not only is this problem not dealt with by Coleman (1990) but nor is it by others who insist on the possible negative consequences of social capital, especially in reference to the ethnic economies, such as Portes (1998) and Granovetter (1990).

⁷ For a presentation of this approach, known as “new comparative political economy”, see Evans and Stephens (1988). Other interesting points for discussion on social capital and development are made by Evans (1996) and Woolcock (1998).

⁸ This hypothesis regarding social networks in the South of Italy is developed in Trigilia (1992). See also Mutti (1998). For the role of local political subcultures in the small-firm development of the Third Italy (central and north-eastern regions), see Trigilia (1986) and Bagnasco (1988).

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