Social capital, institutions and policy making

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"Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing. Thus it is on the one side a study of wealth; and on the other, and more important side, a part of the study of man. For man's character has been moulded by his every-day work, and the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideals."
Alfred Marshall, Principles of Economics, 1920

Abstract

Economic processes, consisting of interactions between human beings, exploit the social capital of persons endowed with specific culture and identities. The role of institutions and policy makers is to build positive social capital and exploit it to reach their objectives. However, social capital is elusive and has several dimensions by which to interpret its multifaceted functions in economics and society. We cannot forget, furthermore, that social capital sometimes is undesirable for society, for instance when used for unethical uses. Even so, it is widely accepted that social capital has stable and positive effects.

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1 Introduction

Wellbeing is pursued through individual and social action. The social dimension is therefore a decisive economic force. Social capital, contributing to the cumulative capacity of individuals and social groups to work together for a common goal, is however often overlooked by economic theory. Neoclassical economics models are sometimes too harsh in depicting human behaviours, choices and dynamics. This usually results, at best, in useless economic theories and, at worst, in wrong policy prescriptions and forecasts. A feeling of incongruity may arise from the application to the human behaviour of the homo oeconomicus' logic. Indeed, economic processes consist of interactions between human beings. These processes exploit the social capital of persons endowed with specific identities.

Social capital evolves during long periods, or better it co-evolves with all the economic institutions and organizations in which it is embedded. Social capital is not always positive, but usually it can solve and reduce both government and market failures. This is why the policy maker should be aware of the social capital's existence and the constraints it imposes on the changes and challenges a society can face. The role of the policy maker is to build positive social capital and exploit it to reach her objectives. Human capital investment and a correct education strategy are two viable tools that complement and magnify the social capital's effect on the economy.

To correctly address the relations among social capital, institutions and policy making, it is important to stress that, notwithstanding it can be enhanced, social capital is also highly elusive. On the one hand, even that social capital should be used by institutions to achieve their goals, it cannot be disposed as it were physical capital. On the other hand, even that social capital is out of control and not easy to influence by politicians, it can be raised in the long run by farsighted policies.

In the next sections, we explore social capital dimensions and we consider the intertwinements of social capital, institutions and organizations. A role for social capital in theorizing is then investigated. In the second part of the paper, we introduce social capital among the constraints and aims of the policy maker. The active consideration of social capital as a policy resource gives advice on the proper course of action to reach the policy maker's objectives, among which we stress education as co-objective to pursue.

2 Social capital dimensions

Given its multidimensionality, social capital can be defined in many ways. Therefore, since this work does not want to skip any fundamental interpretation about social capital, a clear and precise definition of social capital lacks all along this study. It is interesting, however, to circumscribe at best this concept starting from its characteristic dimensions.

Social capital has different dimensions by which to interpret its multifaceted functions in economics and society. The *structural* domain of social capital is important to understand organizations, institutions and leadership shaping the structure of social relations. Also the bonding/bridging structure of social capital relates to this dimension. The *relational* aspect of social capital pertains to trust, norms and identity. This dimension of social capital stresses that relational ties are inimitable. Indeed, ethnic communities are socially complex and have strictly idiosyncratic characteristics. Another dimension of social capital is the *cognitive* domain that involves mental processes, concepts and ideas. Social groups have seated and shared mental processes embedded in their language, stories and culture. The resulting articulated value system, strictly related to religious principles, has a profound impact on economic development [Weber, 1930, Guiso et al., 2003].

Social capital concerns, for instance, tangible and virtual resources which are collected by parties through social structure and which promote their achievements of goals. The set of resources relevant for social capital are those embedded in relationships. Other concepts often paired to social capital are trust and norms. These concepts are self-reinforcing and cumulative, in the sense that there is a self-sustained process of accumulation of all the resources. Social capital can be built in childhood, without sacrifice and calculation, and also in an optimizing framework as individual decision making process, with conscious calculation taking in account opportunity costs [Rupasingha et al., 2006].

A fundamental dimension of social capital is trust. Trust, a lubricant of the social system [Arrow, 1974], can be defined as the willingness to permit the decisions of others to influence our welfare [Sobel, 2002]. Notwithstanding its importance in the composition of social capital, trust is different from social capital particularly at the individual level [Glaeser et al., 2002]. Trusting other individuals brings positive externalities to them, therefore, the level of social capital of individuals prone to trust others a lot can be less if they are not targeted of trust at the same level. Trust can be in competence and in intentions [Nooteboom, 2007]. Others can have good intensions towards us but not the competence to help us effectively. On the other hand, others can have the competence and the instruments to affect positively our conditions but lacking the intentions to do it. Trust can change and be raised in different ways, not always idyllic. For instance, in a situation in which individuals have different opinions and diverge on the proper course of events, if trouble is solved by *voice* and not *exit*, trust tends to deepen. Trust is also in a significant relation to *control*. Usually, we think about substitutes between trust and control, meaning that once trust is built control is not necessary anymore. However, some form of control can also complement trust activating a self-reinforcement of these behaviours [Nooteboom, 2007].

Two types of social capital are commonly differentiated [Burt, 1982, Coleman, 1988, Putnam, 2000]. First, *bonding* social capital refers to ties internal to the social group, ties that are stronger and common in denser networks. Second, *bridging* social capital refers to external ties, ties that are weaker and are common in larger networks. The former kind of social capital is not always to be preferred to the latter. Too much bonding social capital stifles innovation and adaptation, generates monopolies, collusion and cartels. In addition, weaker ties leading to larger networks are better to share more information than stronger ties of denser networks having a higher degree of overlapping information. The differentiation of these two types of ties is a useful tool also in the field of theory of the firm. In order to develop a well-functioning firm, entrepreneurs should maintain a dual network of both weak ties and strong ties. With a right balance of ties, employees and other actors share common goals and maximize information diffusion.

Many kinds of capital have to evolve to guarantee a proper development of a community. In addition to physical capital, all the forms of capital have usually a positive relation with social capital and they are accessed through it. Community membership gives access to pooled resources, but usually high quality ties are necessary. Also human capital in a community is accessed by its participants in a preferential way. Ethnic or cultural capital is a resource formed by language, accent, manner and religion rituals. Usually it is positive but there are also cases in which cultural capital has negative influence. For instance, cultural capital can be an obstacle in the process by which social capital is converted to economic wealth when it is not supportive to entrepreneurship [Light and Dana, 2013].

Identity capital or motivational capital is another important form of capital. From identity comes a sense of belonging. When individuals experience an identity, they feel emotionally and cognitively tied to their organization. Identity is important in economics because it can solve the problem of incomplete contracts whenever effort is hard to observe or to reward [Akerlof and Kranton, 2005]. There is also a substitutability to take into account between monitoring, to achieve completeness of information, and identity, to exert effort by intrinsic values. Indeed, since monetary incentives (extrinsic motives) crowd out identity, they are substitutes. Economists' language is the language of incentives: we offer something valuable, in order to influence and change the choice of the subject. However, as Grant [2002] states, an incentive scheme hides always a relation of power. Finally, also identity is not always positive and can pose problems. Some problems arise, for instance, because identity can be experienced with the working group and not with the organization as a whole.

2.1 Institutions matter

In the economy, the same stimulation does not always produce the same effect. In social contexts, institutions affect and modify the outcome of a policy, and more in general a behaviour. Institutions substitute and complement social capital, they co-evolve with social capital [Aoki, 2007] in a positive but also negative way. Whenever agents recognize fair institutions, they stimulate positive conformations of social capital.[1] Trust and good institutions self-reinforce themselves. In addition to understanding such intricate feedback-type interconnections existing in a given period, policy makers should consider their evolutionary dynamics. Indeed, institutions are the result of a historical process; they are, together with social capital, the legacy of history. Social capital is usually paired to the concept of informal institutions. Douglass C. North, in his Nobel lecture, defined institutions as a combination "of formal constraints (e.g. rules, laws, constitutions), informal constraints (e.g. norms of behaviour, conventions, self-imposed codes of conduct) and their enforcement characteristics".

Impersonal exchanges of contemporary industrial economies are characterized by several players, with little information about other parties in transactions and with strategic interactions or games often not repeated or with a precise end. These conditions do not allow cooperation to be sustained. On the contrary, in small-scale societies with personalized exchange, cooperation is pursued more times than competition. The creation of effective economic and political institutions in contemporary economies could involve the alteration of the benefit-cost ratios in favor of cooperative solutions. If this is the case, the predetermination of an institutional setting cannot be omitted in analytical models.

Many holists acquiesce that only individuals, not institutions, can be agents of change, while most individualists endorse that society profoundly affects the individual. Douglass C. North, during the 1980s, explored long-run institutional change. Separating institutions from organizations, he defined the former as the rules of the game and the latter as the players. Groups of individuals with the same objective function compose organizations.[2] And organizations, while pursuing their objectives, are the agents of change. Indeed, while pushed by competition, they try to change the institutional framework to boost their competitive position. The vehemence of competition will affect the rate of institutional change and the perceptions of the actors involved will influence the direction of change. Ultimately, the opportunities resulting from the institutional framework determine the same existence of the organizations that compete to survive.

[1] A typical example of the effect of good institutions on social capital is the raise in entrepreneurship [Percoco, 2012].

[2] For instance, firms, unions, cooperatives, political parties, regulatory agencies, churches, sport associations and clubs.

Individuals create, out of their actions, society. But, to some significant extent, the social situation creates the individual. Individuals develop their habits and routines and accept their social conventions and norms. If we believe that individuals, acting in their self-interest, unintentionally give rise to social rules, we would prefer an invisible-hand approach to institutions rather than a collectivist one. The belief whether spontaneous institutional developments and changes would be consistent with the economic and social system has a deep impact in the position in the debate on interventionism versus non-interventionism. Nevertheless, economic efficiency and social benefit, that should guide interventionists, are difficult to define in the context of an evolving institutional system.

2.2 A role for social capital

There are several market and government failures for which social capital gains relevance and is a useful instrument. Issues like free-riding, public good, externalities and incomplete information are better solved at the community level. In labour markets, for instance, information is incomplete and therefore recruiting often happens from within homogeneous social categories. Since these same homogeneous social categories spread social norms and monitor members, employers can obtain loyalty and social control within employees' network.

A community is a group of people who interact directly, frequently and in multi-faceted ways [Bowles and Gintis, 2002]. In communities, there is strong reciprocity, meaning that people are willing to bear the costs of punishments to enforce norms and equity [Fehr and Gächter, 2000]. Other relevant experiments dealing with social capital confirm that trust and reciprocity are basic elements of human behaviour [Berg et al., 1995] and find that the degree of social connection positively correlates with trustworthiness [Glaeser et al., 2000]. However, there are also community failures like the necessary small scale and homogeneity that impede diversity. Public intervention should take into account all these aspects, understanding the limits of communities but also that the community level can solve public and market failures.

Communities are social networks, for which embeddedness of economic actions permits access to external or network resources. The denser a social network the clearer and more firmly held the norms governing behaviours. The representation by means of networks is useful also to understand the kind of links connecting nodes. Whenever two distant part of the network are connected we speak about bridging. In this case, key individuals deal with structural holes and sometimes these individuals are entrepreneurs that generate profit motivated by their position and connections.[3] Long lasting

[3] Social capital differs depending on the number and the kind of links. For the particular position of entrepreneurs near to structural holes, in which there are by definition no many

relationships, represented through network participation, are based on reciprocity. The economic consequences of social networks are many, as, for instance, when price changes depending on network position, or in other words social capital [Granovetter, 2005].

Network externalities[4] arise in these contexts. If an individual enters a network, that will bring positive externalities to individuals connected to her but not yet connected to that network. Externalities can also be negative, as for all the outsiders of the network whenever the network absorbs common resources. The link of a network represents a tie, but ties are of different kind/importance. Granovetter [1973] highlights that the strength of ties in social networks depends on factors such as investment of time, emotional involvement, intimacy and reciprocity. Status, social influence that enables to reward and punish others, is also a form of social capital.

Horizontal networks are better for knowledge sharing. Instead, vertical networks produce a clear hierarchy among individuals. Hierarchy is often negatively considered, in particular for issues like knowledge diffusion, trust and reciprocity. For instance, trust is lower in countries with dominant hierarchical religions [La Porta et al., 1996]. However, we can think also of situations in which a clear hierarchy of competent and influential individuals can have a positive impact on the social capital embedded in an organized and effective social network.

Because of the limits of man's abilities to comprehend and compute in the face of complexity and uncertainty, in other words bounded rationality, heuristics and suboptimal equilibria arise. Neoclassical instruments are not able to cope with this kind of problems. On the other hand, individuals' social capital can improve the economic situation and sustain a "good" equilibrium. All the situations plagued with coordination failure may improve with higher levels of social capital. Individuals' opportunism can be very detrimental with *specific* investment. Also in this situation social capital fits well in dealing with the problem. The same relationships at the base of social capital are, by definition, specific. Indeed, social capital cannot be traded like every asset that is entirely specific.

The decision maker, like every actor in the economy, faces information and decision-making costs, psychological constraints and existing social norms. Individuals are often rational in an adaptive sense. If conditions change or superior alternatives become available, individuals will adapt behaviours establishing new satisfactory habits and routines. Social norms, that specify many of the goals of action, would be accommodated accordingly. Bicchieri [2006] states that social norms motivate action, but only indirectly. The direct, underlying motives are the beliefs and desires that

links, we could think, contrary to the predominant view, of low social capital for them.

[4] In presence of network externalities, the more widespread and compatible a good the higher its value. In this situation, scale economies and problems of lock-in, path dependence and multiple equilibria emerge.

support the norm. Indeed, the particular form of bounded rationality that characterizes individuals depends on the social context in which they live.

Therefore, if we accept that decision making costs and psychological constraints restrict the role of rational evaluation and promote habits and rules of thumb, rationality is more a matter of gradual adaption over time than a matter of instantaneous optimization. In addition, social norms constrain individual action and shape preferences and goals. Endogeneity of preferences to social capital [Sobel, 2002] has paramount implications with respect to assumptions in our models. We can say that social capital changes what individuals prefer, but also that preferences determine the amount of social capital accumulation.

We cannot forget, finally, that social capital sometimes is undesirable for society. The most common problem is for outsiders that undergo negative effects for the action of insiders.[5] But also insiders lose individual freedom of action because of the rigid enforcement of social norms. Social capital itself may be used for unethical uses by criminals, terrorists and gangs. Social capital can protect mediocrities, reduce objectivity, impose mental conformity and inhibit escape from failing partners.

3 The policy maker

Welfare functions require explicit value judgements and interpersonal comparisons make many economists uncomfortable. There is no trivial solution to the problem of social welfare. We cannot be satisfied with an overoptimistic picture of government always acting in the social interest [Putnam et al., 1994]. However, also the market does not guarantee efficiency, nor it is free of coercion. The actual markets and governments' performance has to be continually supervised, analyzed, and regulated to meet changing economic and ethical claims. There is no prior guarantee that the adjustments actually made or not made are in the best interest of society.

Whenever we agree on a shared set of objectives to pursue through public action, we ask the policy maker to act in accordance to them in the most efficient and proper way. It is, therefore, conspicuous the urge of defining better the role of the policy maker. The importance of proper policy intervention is stressed by economic theory. Whenever cooperation and complementarities are common, multiple equilibria exist, some of which with low levels of social capital.

Social contracts are valuable since they affect productivity of individuals and organizations. Social connections yield rules of conduct. When social networks are associated to reciprocity norms, social capital is formed because

[5]For the same reason, bilateral agreements in trade can be detrimental to the community of countries, since outsiders lose market shares. Therefore, multilateral agreements are preferred to bilateral agreements in order to develop a common market.

the reciprocal obligations lessen the incentives for deceitful and opportunistic behaviour. Transaction costs are, indeed, low in instances of mutual trust [Fukuyama, 1995]. As Putnam [2000] points out "a society characterized by generalized reciprocity is more efficient than a distrustful society, for the same reason that money is more efficient than barter". Civil commitment and social capital, implying reciprocal obligation and responsibility for action, are particularly important regarding productivity for complex tasks, since tacit knowledge, informal rules and cooperation are pervasive wherever these tasks are performed.

Bernheim and Bagwell [1988] take into consideration the effects of public policies in relation to social capital. Family linkages produce complex networks, and individuals pertaining to families belong to many dynastic groupings. Therefore, equity issues of public policies are strongly affected by the presence of side transfers all along these complex networks. Many neutrality results, like irrelevance of public redistributions, distortionary taxes and prices, are implied by the complex proliferation of linkages between families. All policy-related results based on the dynastic framework, including the Ricardian equivalence, are affected by the actual structure of family linkages.

Policy makers, as with all the forms of capital, should try to enforce a policy supportive to social capital formation, and also try to exploit social capital in order to achieve their goals. Many works on social capital take it as given and fixed in its amount. However, social capital can change in the long run. Its evolution is slow because social capital is based on norms, on views as to how people should behave that depend upon the particular situation.

Social capital is, therefore, indispensable in the policy maker's actions. No economic policy that wants to succeed in a specific territory can forget the amount and quality of social capital embedded in its population. On top of that, social capital should be exploited in a smart way to sustain and facilitate the policy maker's objectives.

3.1 Social capital as a policy resource

Among the many definitions of social capital, the World Bank's definition is that of enduring social relationships of trust and reciprocity that enhance a group's capacity to coordinate actions of its members as they work toward a collective good. Since the aim of economic policy is exactly to coordinate better the actions of individuals toward a collective good, social capital is a *natural* policy resource. The positive spillovers of social capital are several. A culture of trustfulness brings benefits for everybody. Empirical research shows that trustfulness is positively related to infantile survival, to education and even to efficiency, to the success of many firms, to GDP growth.

The pursuit of economic growth is a well-established part of the political agenda for many countries. However, some concerns about simple economic growth arise when we focus on the forms of social participation. As a matter of fact, developed economies undergo a risk of social impoverishment [Putnam, 2000]. In addition to material needs, individuals have substantial relational needs. The satisfaction of the latter requires the implication of other individuals, that is, some form of social participation. Nonetheless, developed economies have reached a high level of satisfaction with material needs, while relational needs are sometimes overlooked.

Economic growth increases pressure on disposable time, generating substitution of time-intensive activities with time-saving activities. Since most of the activities involving social participation are time-intensive, economic growth generates an impulse toward private (non-social) activities. As a result of the shrinking of social participation, a social poverty trap (namely a Pareto-dominated equilibrium of the economy) can arise [Sacco et al., 2006].

Several factors may contribute to a further decrease in the level of social participation. Alesina and La Ferrara [2002] identify some factors that explain low trust levels: recent traumatic experiences, belonging to a discriminated minority, failure in terms of education and income, and mixed community (racial and/or income level). Therefore, population heterogeneity, in terms of income or ethnicity, may act as a deterrent to social interaction, as social networks based on homogeneity and shared interests are reduced or broken. Additionally, the increased mobility levels of the working population and rising in- and out-migration trends can bring further momentum to social segmentation. This trend can be observed through the falling rate of homeownership. Indeed, because of high transaction costs in the real estate market, low mobility is paired to homeownership.

Montgomery [2000] studies how political leaders may use social capital originally formed for some purposes to accomplish totally different objectives. Among these objectives, social capital is a potential source of improved voting levels, a multiplicity of active memberships, macro-level improvements in public health associated with community activity and micro-level successes in administering development projects.

Conditional cooperation, experimentally investigated by Fischbacher et al. [2001], supports the fact that people condition their contribution level to the contribution of others. Therefore, there is mounting evidence that cooperation is not merely an altruistic act, but can serve selfish purposes as well [Axelrod, 1984]. People cooperate also because they obtain benefits. For instance, cooperative people encourage reciprocity from others, have a reputation of dutiful members of society with a virtuous behaviour, develop a social status and lay claim to leadership. A frequent and sizeable virtuous cycle of cooperation allows to consider social capital predictable and as a useful basis for policy initiatives.

Even though family network ties seem to affect individual migration [Palloni et al., 2001], when people choose to emigrate they break a large part of their old group ties and affiliations. In such a way, individual behaviours are less driven by inherited communal obligations and more by personal considerations deriving from market (for example wage levels) and non-market value preferences (for example culture charm) [Heffron, 2000]. Masses of migrants change and co-determine in such a way the evolving structure of human and social capital in a given region. However, there are significant costs to moving from one community to another. Therefore migration generates a deep impact on social capital of individuals, affecting, for instance, their propensity to become entrepreneurs [Wahba and Zenou, 2012].

Social capital is heterogeneous and somewhat volatile as a policy resource. Public access to energies enclosed in social capital to policymakers depends on the kind of social capital. Indeed, the drivers of a fifty-year period of rapid social and economic development, in addition to the materialist values such as individualism and achievement, were more traditional social norms like obedience and religious faith than postmaterialist values of trust and cooperation one normally associates with social capital [Inglehart, 1997]. In addition, social capital is a neutral resource. If social capital is accessed, its uses may raise the efficiency of a policy. However, the same uses strengthen the commitment to the organizations' values and benefits that have either positive or negative side effects for the society as a whole.

3.2 Education as a co-objective of the policy maker's action

The role of the policy maker requires to develop the capital of the nation. In the past, the main focus was on investment in physical capital, whereas, today, the emphasis has shifted towards investment in human capital. Increasing human capital is of paramount importance to realize well-being. Knowledge disseminated by education positively affects non-market aspects of the quality of life. Additionally, the externality-type benefits that reach others are even more important to human welfare than pure economic growth.

Raising human capital, through more educated and healthier population, leads to higher productivity that translates into future higher firms' profits. In knowledge and competence-based economies, people have become extremely important. A more educated population is attained through better educational facilities[6], meaning better physical and immaterial assets. Investment in education should be prioritized by policy makers for its externality-type benefits on all the population, like reduced crime and enhanced social cohesion.

Social capital is a peculiar kind of capital also for its ability to be infinitely transferred without exhaustion. This characteristic, that it shares with human capital and knowledge, enables individuals to share something

[6] There are three parts in installing an educational facility: fabricating a school, operating a school and building human capital.

that can be given to others without diminishing its availability to the original individuals. Social capital appreciates with use: the more often it is accessed, the higher its level of utility to individuals. Social capital has a strong complementarity with other capitals. Social entrepreneurship, bettering the reputation of a region, produces social capital that can be exploited also by commercial entrepreneurs [Estrin et al., 2013]. Therefore, a widespread non-for-profit sector and a high level of civil development is supportive to a broad diffusion of social capital and capital in general.

Education can sustain and yield higher profits and wages, improved health, lower fertility rates, political stability and freedom, lower poverty and inequality rates, better environment and lower crime rates. Indeed, education, being critical to the broader process that sustain economic growth, is the building block of economic development generating non-market returns and externalities that are vital to human welfare.

Social capital accumulation occurs via inter- and intra-generational transmission mechanisms. Individuals acquire good culture mainly from their parents and update their values intra-generationally through their life contacts. The relevancy of inter-generational networks is attested by many scholars, as done for example by Magruder [2010] finding that fathers serve as useful network connections to their sons. However, intra-generational networks are less investigated.

Schools and social "spaces" where interactions take place are decisive in creating and shaping social capital. Therefore, spatial segregation should be responsible for the actual dissemination of trust and beliefs. The life in a certain neighbourhood usually brings to certain occupations, socio-economic positions and particularly to shared values. Industrial clusters, being sensitive to incentives not completely encompassed in contracts, witness different levels and typologies of social capital.

Formal and informal institutions contribute to the construction of social capital. In addition to their peculiar characteristics, their spatial localization is a fundamental factor to take in account. Interestingly, Tabellini [2010] argues that informal institutions may help explaining why even under the same formal institutions, regional differences may resist the force of history.

4 Concluding remarks

Social capital co-evolves with institutions and individuals. Policy makers, not obstructed by a reductionist vision of economics populated only by perfect rational individuals, have to take into account and also to exploit social capital. Indeed, policy making has to be fine-tuned with the proper balance of instruments like market-oriented incentives, public coercion and social and civil enhanced participation. The interactions among these instruments are many and they can puzzle policy makers. Crowding out may occur sometimes with more precise property rights, with attempts to induce higher levels of work efforts, compliance to norms or environmental conservation by fines and sanctions. For such changes, some time may be needed to interiorize the new norms of conduct.

Human relations support economic growth, sustainable development and social progress. People exist in a relational contest and have relational needs, in addition to biological needs. Therefore, increasing efficiency could be useless if it neglects such needs. But if "no man is an island" [Merton, 2005], Heffron [2000] notes that, given the recent explosion of voluntary group activity, no group is an island either. Individuals use their group membership to access goods and services of other groups of which they are not members. The amount of social capital within a group is inversely related to the level of the group's insulation from the other groups and associations in society. Nowadays, group ties and affiliations are often individually chosen driven more by market forces, non-market value preferences and duty to society and the state than by community obligations.

However, social capital and trust binding members of a group together can cause hostility against other groups. Durable relationships help keeping groups together, but they do not necessarily imply trust. Individuals can take advantage of a possible free ride and relax their own efforts believing that the others will carry on. Even so, it is widely accepted that social capital has stable and positive effects.

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