

BONDS AND BRIDGES:
SOCIAL CAPITAL AND POVERTY

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Table of Contents:

SECTION 1:INTRODUCTION	1
SECTION 2: DEFINITIONS AND KEY CONCEPTS	3
Social Capability.....	3
Social Exclusion.....	4
Social Capital.....	6
Civic Engagement.....	7
Theoretical Foundations.....	7
SECTION 3: THE ANALYTICAL FRAMEWORK.....	13
Cross-cutting Ties	13
Functioning of the State	15
Complementarity and Substitution.....	15
SECTION 4: THE EMPIRICAL EVIDENCE.....	20
SECTION 5: CONCLUSIONS AND POLICY IMPLICATIONS	35
BIBLIOGRAPHY.....	44

SECTION 1: INTRODUCTION¹

Increasing attention is being paid, in the World Bank and elsewhere, to the social aspects of development. A country's economic development is embedded in its social organization, and addressing structural inequities requires not only economic changes but also societal transformation (Stiglitz, 1998). But social phenomena are so all-pervasive, and often so vaguely defined, that taking them into account in a systematic way is actually very difficult. One approach to untangling and analyzing some of the social forces at work in development is through the concept of social capital.² The term refers in general to the glue that holds groups and societies together – bonds of shared values, norms and institutions (see Section 2, page 4 below for a fuller discussion). This paper concentrates on two aspects of social capital, “cross-cutting ties” and the interaction between informal and formal institutions. This interaction is characterized as one of complementarity or substitution. Although the focus is narrow, the paper argues that these elements of social capital and their interrelationship help explain a number of puzzles, and have important implications for policy. The argument, in brief, is as follows.

- All societies are built from *social groups* rather than individuals, and these groups determine attitudes, beliefs, identities and values, as well as access to resources and opportunities – and ultimately access to power. Since most societies are not homogeneous, but are divided by class, caste, religion and ethnicity, groups differ in their access to resources and power. There may be high social capital within a group (“bonding” social capital) which helps members, but they may be excluded from other groups (they lack “bridging” social capital)³.
- *Cross-cutting ties* between groups open up economic opportunities to those belonging to less powerful or excluded groups. They also build social cohesion, a critical element in social stability and economic welfare over any extended period. Social cohesion requires not just

¹ The framework for this paper was discussed at a two-day research workshop held at the World Bank in June 1998. Michael Walton, Gloria Davis, Ishac Diwan, Emmanuel Jimenez, and Christiaan Grootaert made valuable comments on an earlier (November 1998) draft. Michael Woolcock, Mike Edwards, Anirudh Krishna and John Blaxall contributed useful comments on the present version. Veronica Nyhan and Magdalena Syposz provided valuable research assistance.

² The term dates back at least to 1916, but was popularized in the last decade by the work of James Coleman (1988) and Robert Putnam (1995). A thorough review of the history and main concepts covered under the rubric of social capital can be found in Michael Woolcock (1998).

³ See Gittel and Vidal (1998) and Warren et al. (1999) for a discussion of bonding and bridging social capital.

high social capital within groups. It also requires dense, though not necessarily strong, cross-cutting ties among groups.

- Formal institutions grow out of and are embedded in societies, and they typically reflect the interests of the more powerful. Political systems have usually evolved to introduce some degree of restriction on their power.
- State and society interact – in particular through relationships of *complementarity* and *substitution*. A simple framework of analysis is offered in which the institutions of the state vary from ineffective to well-functioning along the vertical axis, and the extent of cross-cutting ties varies from low to abundant along the horizontal axis. The four resulting quadrants are characterized as *well-being* (well-functioning government complemented by abundant cross-cutting ties), *exclusion* (well functioning government, low cross-cutting ties), *conflict* (poorly functioning state and low cross-cutting ties), and *coping* (abundant cross-cutting ties substituting for poorly functioning government).
- The four types represented by the quadrants are shown to correspond reasonably closely to the empirical evidence available about the situation in a number of countries (and communities within countries).

Some of the policy implications for governments, the private sector and civil society organizations are then sketched out. First, it is vital to invest in the organizational capacity of the poor. This requires investment at the micro level, and also changes in rules and laws at the macro level, in order to support associational activity. A second critical area of investment is in fostering cross-cutting ties (or bridging social capital) among groups. The paper suggests that sensitively designed interventions would be especially valuable in seven areas:

- Information
- Inclusive participation
- Conflict management
- Education and values
- Economic restructuring
- Governance and decentralization
- Demand-driven service delivery

Section 2, immediately following this introduction, provides some definitions and key concepts as background to the argument. Section 3 then presents the analytic framework, and Section 4 reviews the empirical evidence supporting it. The paper concludes in Section 5 with a discussion of policy implications.

SECTION 2: DEFINITIONS AND KEY CONCEPTS

A human becomes a human because of other humans.

African proverb.

Concepts like social capital and social exclusion have gained wide currency, as evidence accumulates that the same policies implemented in different national institutional environments have different impacts. Indeed, the same policies have differential impact even within the same nation. Moreover, because of the inherent power asymmetry between social groups, social capital leads to negative as well as positive outcomes, ranging from social exclusion, corruption, and co-optation of the state to conflict and violence. The challenge is to understand better the nature of social capital, and the circumstances under which it is likely to lead to the public good.

For this purpose it is necessary first to define and distinguish some of the ‘social’ terms currently used to focus attention on the importance of social relations in economic development and poverty reduction. These include *social capability*, *social exclusion*, *social capital* and *civic engagement*. There is considerable overlap among these concepts, all of which have to do with social arrangements. The next few paragraphs describe each of these concepts briefly, and explain why the concepts of social capital and a particular form of social capital, cross-cutting ties, are used in this paper. The remainder of Section 2 then addresses the theoretical basis for the framework proposed later, in Section 3.

SOCIAL CAPABILITY

The term social capability was coined by Adelman and Morris in the 1960s, and has been popularized by Nobel Laureate Amartya Sen to mean the aggregate version of human capability, which includes basic human necessities such as food, shelter, health, education. Their absence leads to human deprivation. Sen has framed his work on human capability and deprivation around the importance of broad ‘freedoms’, such as freedom of the press, freedom of individual expression, freedom to participate in public discussion, a fair judiciary, in effect, social justice. But his great contribution to poverty reduction strategies has been focusing attention on individual capabilities and deprivation, and on human development indicators (Sen 1992, 1997). Despite the

use of the word social, the concept remains in essence an aggregation of individual capabilities. Only in his most recent work does he outline how the concept of social capability could be useful in framing the debate around relational issues such as social exclusion. Social capability “is the ability to take part in the life of the community, to participate in social activities, to have a sense of belonging in the larger groups...” (Sen, 1997). However, this work is at an early stage of conceptual development and empirical application, and the mechanisms for moving from an aggregate of human development indicators to social relational measures remain unspecified. The term “social opportunity” used by Sen and Drèze may be the closest approximation to what other researchers mean by social capital (Drèze and Sen, 1995).

SOCIAL EXCLUSION

Broadly defined, social exclusion refers to the societal and institutional processes that exclude certain groups from full participation in the social, economic, cultural and political life of societies. The concept goes beyond the focus on income deprivation as a cause for marginalization of individuals or social groups (Gore and Figueiredo, 1997), since people can be poor without being socially excluded or excluded without being poor. Like social capital, social exclusion has quickly become an umbrella concept to highlight the role of social factors and institutional processes that lead to exclusion and deprivation. Like social capital, the contribution of the concept is the debate and attention it has focused on social structures, social and political processes and how these impact access to power, resources and the lives of different social groups. However, unlike social capital, because the focus is on broad processes, a unified conceptual framework has not yet emerged. “Indeed, social exclusion seems to have gained currency in part because it has no precise definition and means all things to all people” (Atkinson and Hills, 1998, p. 13). Atkinson and Hills draw attention to three aspects of social exclusion. First, it is relative -- exclusion is from a particular society, at a particular place and time. Second, it implies an act of exclusion and hence an agent or agency. And finally it has a dynamic aspect -- people are excluded not just because they are currently without a job or income, but because they have little prospect for the future. While the conceptual debate continues, there is extensive

empirical work highlighting the range of social, political, institutional, and cultural processes that lead to the marginalization of sizeable groups in society.⁴

There are overlaps between the terms social exclusion and social capital. Both include participation or involvement in decision making, including political decision making, and both focus analytically on those included or excluded. As will be seen in the discussion of social capital below, social groups and networks only work by including some and excluding others. The challenge in using both concepts is to differentiate between exclusion which is voluntary and exclusion which is involuntary or coercive -- based on criteria such as age, race, caste, tribe, gender, location, class or income. The importance of this difference is central in the sociological literature. Weber (1947) characterizes social relations as open where participation is not limited or denied, and as closed where outsiders are excluded.

Both concepts, social exclusion and social capital, raise implicitly the question of power differentials, although this was mostly absent from the early social capital debate as it evolved in the US. Social capital can explain much social exclusion, because the same ties that bind also exclude. The non-overlapping nature of social networks of different social groups results in unequal opportunity to participate. Hence those who belong to social networks which already have access to the resource allocation decisions of the state or the private sector (jobs, location of industry) are much more likely to continue to be included in societal processes than those who do not have such access. This interpretation is strengthened by the finding that income inequality remains quite stable across time, even during periods of economic growth (Li, Squire, and Zou, 1998). Recent critics have highlighted the fact that in socially differentiated or unequal societies, social capital can lead to maintaining the status quo of exclusion. All focus on such structural factors as power, political opportunity, location of elite businesses and leadership, and institutional constraints to mediate the impact of social capital. Clearly, the composition of social capital and these institutional factors need to be taken into account in recommending policies to foster equality of opportunity.⁵

⁴ See for example Silver (1994), Figueroa et al (1998), Hashem (1996), de Haan and Nayak (1995), de Haan and Maxwell (1998), Kudat (1997), and Dudwick (1998).

⁵ See further Tarrow (1996), Kentworthy (1997), Levi (1996), Heying (1997), and Skocpol (1996).

SOCIAL CAPITAL

While the term social capital was used by several scholars⁶ before Robert Putnam, the public and academic debate is directly linked to the publication of his book *Making Democracy Work: Civic Traditions in Modern Italy* (1993), which links the differences in performance outcomes of 20 regional governments in Italy to the extent of horizontal civic associations. His publication of *Bowling Alone: America's Declining Social Capital* (1995), and the controversy it generated, ensured that the debate continues.

The debate on social capital has brought together sociologists, anthropologists, political scientists and economists. While differences remain, there is agreement that in contrast to all other concepts central to the development debate, social capital is unique in that it is *relational*. “Whereas economic capital is in people’s bank accounts and human capital is inside their heads, social capital inheres in the structure of their relationships. To possess social capital, a person must be related to others, and it is these others, not himself, who are the actual source of his or her advantage” (Portes, 1998). “As an attribute of the social structure in which a person is embedded, social capital is not the private property of any of the persons who benefit from it” (Coleman, 1990). It exists only when it is shared. “Social capital is embedded in social structure and has public good characteristics” (Narayan, 1997).

While the debate is vigorous on whether social capital is really capital, whether it should be widely or narrowly defined, and whether it can be constructed or is an endowment, the active engagement of scholars and practitioners has moved the field forward in terms of conceptual development and empirical results.⁷ Hence the value of this term rather than others to explore the impact of social relations. For the purposes of this paper, social capital is defined as the norms and social relations embedded in the social structures of society that enable people to co-ordinate action and to achieve desired goals.

⁶ Such as: Lyda J. Hanifan (1916) “The Rural School Community Center” *Annals of the American Academy of Political and Social Science* 67: 130-138; Bourdieu (1985); Loury (1977); Coleman (1988).

⁷ This debate and the characteristics of social capital are discussed in Deepa Narayan (forthcoming 1999). See also Paul Collier (1998) and Michael Woolcock and Deepa Narayan (forthcoming 1999).

CIVIC ENGAGEMENT

The term civic engagement is used by some writers interchangeably with social capital, and hence adds no value. Others restrict the notion primarily to the use of social capital for community and political engagement. Recently, Varshney (1998) made a strong case for differentiating between social capital within a particular social group and forms of engagement that cut across groups. In his case study of communal riots in India, Varshney uses the term civic engagement to refer to voluntary associational networks which include both Hindus and Muslims, such as those formed for specific professional or issue purposes, communal and political interest groups, and supported by everyday social interaction. But because the term civic engagement is sometimes used with a wider meaning, this paper has adopted the term cross-cutting ties. In this paper, the term is used to characterize social relations in informal or formal voluntary groups and networks characterized by heterogeneity of membership -- that is to say, ties that cut across ethnic, gender, caste, class, wealth, religion, location or any other characteristics which distinguish social groups.

THEORETICAL FOUNDATIONS

With the definitions clarified, it will be useful to introduce certain propositions from sociological and political theory as a foundation for the analytic framework presented in Section 3 below. In a recent article, Alejandro Portes (1998) reviewed the sources and consequences of social capital, and sketched out a conceptual framework to understand social capital and its function in different contexts. Portes differentiates two sources of social capital, and two kinds of consequence. One source he calls *consummatory*, deriving from socialization processes in families, kin networks, class and occupational groups; and the other he calls *instrumental*, entailing purposive exchanges based on expectations of reciprocity.⁸ He also points out that the outcomes can be either *positive* or *negative*.

Portes and many others have shown how *positive outcomes* operate through and include social control or norm observance, family support and benefits mediated through extra-familial networks. These affect a broad range of outcomes from education to income, to health, to

⁸ Consummatory sources can be seen as related to the *endowment* of social capital, while instrumental sources exemplify the *constructability* of social capital. Obviously, long term changes in social processes affect the nature of the underlying endowment, and what was considered exogenous becomes endogenous in the long run.

performance of firms, to collective action at the community level.⁹ The value of social control lies in making formal or overt controls unnecessary. Examples include not violating the law simply because no one is watching, and family expectation for children to do well in school to avoid bringing shame on not only the family but the whole community (Zhou and Bankston, 1996). The positive benefits of solidarity networks can also be seen in the opening up of economic and employment opportunities within ethnic groups, poverty reduction, and increased gender and racial equality.¹⁰

There are, however, also *negative consequences* to consider. The same ties that bind also exclude. Powerful networks can restrict access to opportunities, for example the caste system in India, with its rigid boundaries. Social capital restricts individual freedom (women in purdah in northern India), and can lead to excessive claims on successful group members -- so excessive that successful individuals are sometimes driven to break off ties with the larger ethnic group. Solidarity networks can also lead to downward leveling mechanisms (Portes, 1998). Researchers could find only one explanation for differences in academic performance between white and black students from the same middle to upper income groups in a suburban school in Ohio -- the peer pressure on black teenagers who took schoolwork seriously. They were labeled as “trying to be white”, and ridiculed by their peers (Fletcher, 1998). And sometimes the negative impacts of social capital are manifested in powerful, tightly knit social groups, that are not accountable to citizens at large, and practice corruption and cronyism (Evans, 1989; Mauro, 1995; World Bank, 1997).

Thus societies can be rich in social capital within social groups, and yet experience debilitating poverty, corruption and conflict. To understand why, it is necessary to examine three other phenomena: first, the connectedness or cross-cutting ties between groups; second, the nature of the state; and third, how the state interacts with the distribution of social capital.

⁹ References include: for education outcomes Teachman et al (1997), Knaul and Patrinos (1998), Braatz and Putnam (1998), and Francis et al (1998); for income outcomes (Burt, 1997), Montgomery (1991), Belliveau et al (1996), Narayan and Pritchett (1997), Grootaert (1998), Robison and Siles (1997), and Simpson et al (1992); for health outcomes Kawachi et al (1997a, 1997b); for performance of firms Barr (1998), Fountain (1997), Kantor (1995), Brautigam (1997), Fafchamps (1996), Weidenbaum and Hughes (1996), Gulati (1995); for collective action at the community level Narayan and Nyamwaya (1996), Molinas (1998), and Grootaert (1998).

¹⁰ See, for example, on ethnic groups Zhou (1992) and Nee, Sanders and Sernau (1994); on poverty Narayan (1997); on gender Blackwood (1997) and O'Connor (1990); and on race Jiobu (1988) and Waldinger (1995).

On the subject of cross-cutting ties, several writers have pointed to the importance of ties outside the primary network as a means to access resources and power outside the group. Two authors stand out for their contributions in this area. Granovetter (1973) is renowned for his phrase “the strength of weak ties.” He also drew attention to the importance of ties beyond the immediate circle and of “coupling and decoupling” from tightly knit small family or ethnic based economic groups to more expansive, loosely knit networks, with richer resources to achieve social and economic mobility (Granovetter 1995). The other is Glen Loury. The main conclusion from his now famous study (1977) of black youths is that youth from minority groups are disadvantaged by lack of information on job opportunities and parental connections to the labor market rather than discrimination by employers. Put simply, their parents are much less likely to know where the jobs are or whom to call.

Turning to the nature of the state, its core characteristics are a geographically defined community and a government comprised of formal institutions that embody political authority. A government is considered legitimate “to the extent that its claim is grounded in moral or political principles generally acceptable to its people and so long as its actions remain consistent with those principles” (Magstadt and Schotten, 1984). When states collapse, they lose their ability to fulfil three basic functions: as sovereign authority (the accepted source of identity and the arena of politics); as an institution (a tangible organization for decision making and an intangible source of identity); and as the security guarantor for the population within a defined territory (Zartman, 1995).

Several theorists have pointed to social relations, informal norms and expectations to explain the performance of very different types of state regimes. For example, O’Donnell’s analysis of state performance in Argentina, Brazil and Peru is based on the premise that states are embedded and interwoven in complex ways with their respective societies (O’Donnell, 1993). In other words, a state is not just the state apparatus, but a set of social relations which establishes social order and backs it up with a centralized coercive guarantee within a given territory. Many of these relations are codified in the legal system. The laws and the underlying norms provide society with the most important public goods, namely generalized social predictability and broad equality among citizens (not just political rights, but the right to fairness from the state and the legal system). This is not to say that the social order is in fact socially impartial. On the contrary, recent research has demonstrated systematic class bias in the administration of justice (O’Donnell,

1993), and current news stories continue to draw attention to the problem¹¹. Schattschneider (1963) captured the reality in his now famous observation that “in the pluralist heaven, the heavenly chorus sings with a strong upper class accent.”

Many studies have shown that democracy has numerous variants, and does not automatically lead to state effectiveness¹². Another critique comes from those who point to the problems of transferring Anglo-Saxon democratic institutions to other parts of the world, when their core assumption is homogeneous societies, consisting of autonomous individual citizens (Lijphart, 1991). On the contrary, the defining characteristic of many modern societies is heterogeneity of ethnicity, caste and religion. In countries with deep societal divisions, “majority rule is totally immoral, inconsistent with the primary meaning of democracy, and destructive of any prospect of building a nation in which different peoples may live in harmony” (Lewis, 1965). Making democracy work in these circumstances requires mechanisms and processes to reconcile conflicts among major social groups, as well as among individuals or smaller and narrowly focused interest groups.

But no national level political model adequately explains variations in state performance, or variations in inter-ethnic collaboration or ethnic violence *within* a country. To do this requires examining more deeply the nature of civil society within countries, and the state as shaping and being shaped by the action of civil society actors. While the debate about precisely what constitutes civil society continues, it can be broadly defined as the space that exists between the family and the state, which makes interconnections between individuals and families possible, and which is independent of the state. It is defined in terms of its purpose, the public good, rather than its form (Varshney, 1999). It includes interactions in everyday social life as well as interactions within associations, based on ascriptive, traditional or modern characteristics such as education or civic or political interests.

The emergence of associational forms of civil society is shaped by citizenship rights. When political and state institutions are seen as sets of social relations, citizenship rights acquire a much broader meaning than the right to vote or political representation. Social citizenship, a term

¹¹ Among many recent examples in the press is the shooting of Amadou Diallo, an immigrant from Guinea and a street vendor in New York. He was killed on February 4 1999 by two white police officers, who fired 41 bullets at him. Mr Diallo was unarmed and had no criminal record. (Washington Post, February 12, 1999)

¹² See, for example, Isham, Kauffmann and Pritchett (1997), Kohli (1990), Whitehead (1993), and Przeworski et al (1996).

emerging from Townsend's studies of poverty (1995), refers to the rules and customs that govern de facto equal participation in the society in which one lives. Inclusive citizenship, a term used by Kitschelt (1993) or low intensity citizenship (O'Donnell, 1993) also draws attention to the fact that presence of voting rights does not ensure equal access or equal participation in society. Basic freedoms are of fundamental importance in all societies. Political scientists and economists such as Sen have particularly noted the importance of a free press, free information flow and the freedom to associate in informal or formal groups, associations and networks for full participation as citizens in society.

It is the exclusion of many from equal participation in society, even when they have equal political rights, that at some points in history gives rise to social protest movements. While modernization theory had predicted the disappearance of solidarity groups based on religious, ethnic, national or cultural identities, the reality is that such social movements (sometimes including armed conflict) have actually increased in the last few decades. One of the few valid generalizations in the literature on social protest and collective mobilizations is that social movements arise when aggrieved groups cannot work through established channels to communicate new claims into the political process of authoritative decision making (Kitschelt, 1993). The closure of existing avenues of participation, such as those provided by political parties or interest groups, is a necessary though not sufficient condition for the emergence of collective, sometimes violent, mobilization of groups. The intensity of deprivation, the resources of the mobilizing actors, the leaders' strategic skills and the counter strategies of opponents all contribute to the success of mobilization efforts.

To analyze the nature of state-society interactions, Peter Evans (1996), drawing upon the work of several others,¹³ introduces the idea of synergy between government and citizen action. This synergy is based on *complementarity* and *embeddedness*. *Complementarity* means mutually supportive relations between public and private actors. Examples might include a framework of rules and laws which protect rights to associate, freedom of assembly, or the state providing public information or transportation to facilitate associations. *Embeddedness* refers to the ties that connect citizens and public officials. The classic examples are from irrigation, in which local irrigation officials are from the community being served, and hence are enmeshed in local social relations and pressures to perform. Note, however, that this enmeshment only works positively when the overall institutional context is performance oriented and accountable.

¹³ In particular Tendler (1997), Fox (1996), Heller (1994), Ostrom (1996), and Wade (1985).

Woolcock (1998) takes these ideas further, and proposes a framework linking the micro and macro more firmly together to make predictions about outcomes of local levels of social capital. He uses the terms embeddedness and autonomy at both levels. At the micro level, embeddedness refers to *intra-community* ties and autonomy refers to *extra-community* networks. At the macro level, embeddedness refers to state-society relations and autonomy to institutional capacity and credibility. The important contribution of Woolcock's framework is its emphasis on linkages outside the community, and linkages between communities and the state.

In brief, the structures, rules and norms of institutions of the state and political systems are in dynamic interaction with the social organization of society, being both affected by it and over time effecting change in it. The state creates the political and social space for the emergence of civil society and citizen action that provide checks and balances on the power of the state, so subjecting itself to public accountability. It is civil society that in interaction with the state through contentious politics and public policy measures attempts to create new opportunities for those previously excluded from full participation in society. Hence nurturing social capital for the public good requires far more than volunteerism and public policy support of voluntary associations.

It is in this area that the present paper concentrates. Its central thesis is that all societies and all social groups have social capital. However, for societal well being or the collective good, a transition has to occur from exclusive loyalty to primary social groups to networks of secondary associations whose most important characteristic is that they bring together people who in some ways are different from the self. Social relations underlie all social institutions and in turn feed back and reinforce the organization and functioning of a country's formal and informal institutions. Section 3, immediately following, presents an analytic framework to explore these propositions.

SECTION 3: THE ANALYTICAL FRAMEWORK

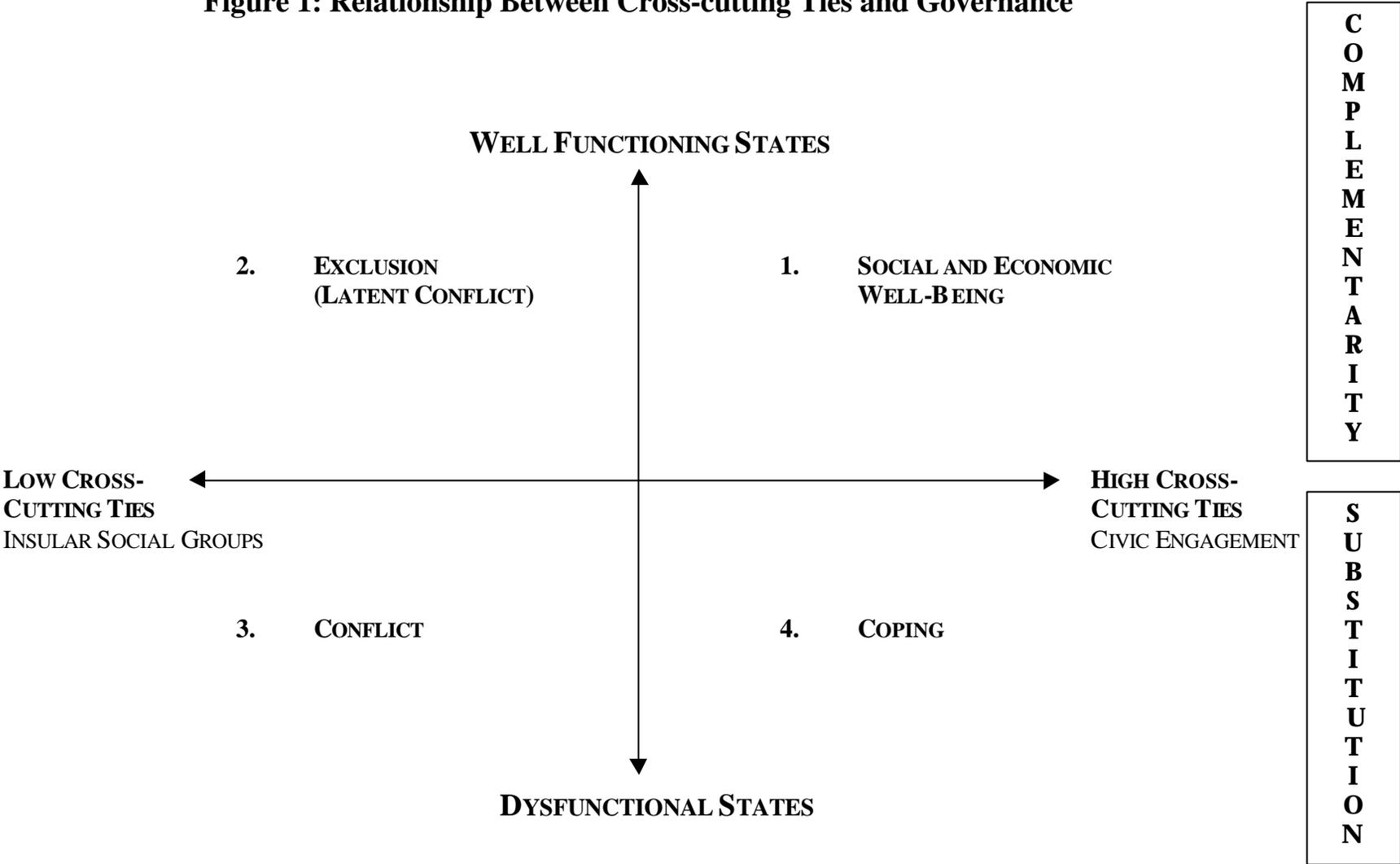
This section presents a simple analytic framework of relationships growing out of the concepts and theories discussed in Section 2 above. The framework highlights the interaction between two key dimensions, cross-cutting ties and state functioning. The framework permits a structured examination of how different combinations along these two dimensions affect the social and economic performance of countries, or regions or communities within countries. The framework is sketched in Figure 1.

CROSS-CUTTING TIES

The underlying dynamic reflected in the framework is that voluntary cross-cutting networks, associations and related norms based in everyday social interactions lead to the collective good of citizens, whereas networks and associations consisting of primary social groups without cross-cutting ties lead to the betterment of only those groups. Primary social group solidarity is the foundation on which societies are built. The impact of primary social groups depends on their resources and power. But when power between groups is asymmetrically distributed, it is cross-cutting ties, the linkages between social groups, that become critical to both economic opportunity and social cohesion.

While primary groups and networks undoubtedly provide opportunities to those who belong, they also reinforce pre-existing social stratification, prevent mobility of excluded groups, minorities or poor people, and become the bases of corruption and co-option of power by the dominant social groups. Cross-cutting ties which are dense and voluntary, though not necessarily strong – as in the right-hand half of Figure 1 -- help connect people with access to different information, resources and opportunities. In addition, as people get to know others who are different from themselves, there is less likelihood that social differences will grow into divisive social cleavages.

Figure 1: Relationship Between Cross-cutting Ties and Governance



On the other hand, the social fabric of a country may consist of primary social groups with few inter-connections between groups, or consist of groups with inherent power asymmetries such as the caste system in India – as in the left-hand half of Figure 1. These societies are likely to be characterized by social exclusion and polarization at the best, and at the worst by corruption, violence and economic stagnation, where the majority copes by depending on informal social mechanisms for livelihoods, security and insurance.

FUNCTIONING OF THE STATE

The state consists of a geographically defined community and a government comprised of formal institutions that embody political authority. The functioning of government institutions can be described in various ways, but most authors focus on two aspects that determine government performance. First is the overall governance environment which fosters the rule of law, citizen rights and freedom to associate, since these create the societal norms which influence the emergence, and subsequent performance, of a range of societal institutions.¹⁴ The second aspect is the competence, authority, resources and accountability of government organizations working within the overall governance environment¹⁵

The vertical axis in the framework depicted in Figure 1 indicates the level of state functioning. In the top half are states which function effectively, maintain order, collect taxes, and so on, while in the bottom half are states where institutions are ineffective, or at the extreme which have collapsed altogether.

COMPLEMENTARITY AND SUBSTITUTION

The framework is especially helpful in capturing some of the dynamic aspects of the relationship between social capital and the formal institutions of the state. Social capital has an impact on the overall governance environment and the efficacy of government institutions. Under conditions of good governance, the functioning state *complements* the functions of the informal social groups. In societies in which primary social groups are connected through cross-cutting

¹⁴ See for example Isham et al (1997), Rodrik (1997), Evans (1996), and Fedderke and Klitgaard (1998).

¹⁵ See for example Stern and Stiglitz (1997), Manor (1991), and Knack and Keefer (1995).

ties, economic prosperity and social order are likely. But when a society's social capital inheres mainly in primary social groups that are disconnected from one another, the more powerful groups dominate the governance structures, to the exclusion of other groups. Such societies are characterized by latent conflict. As governance deteriorates, and government efficacy deteriorates, the informal social groups become *substitutes* for the state. People struggle to survive in a context of violence, crime and war in societies with isolated social groups, or try to cope in an economically stagnant situation to earn a livelihood. The following paragraphs use Figure 1 to explore this broad dynamic further.

The two critical dimensions along which countries (or regions or communities within a country) vary are in the level of functioning of the state and the extent of cross-cutting ties among social groups. In the ideal scenario (Quadrant 1, labeled Well-being), good governance and high levels of government functioning complemented by high levels of cross-cutting ties among social groups lead to positive economic and social outcomes. Countries that belong in this quadrant will include the Scandinavian countries and the Netherlands. All are characterized by high economic development, social cohesion, and the relative absence of crime, violence, conflict and exclusion.

In Quadrant 2 (labeled Exclusion) are found countries (or regions or communities) with well functioning governments that have been taken over or unduly influenced by the dominant primary social groups. They are characterized by relatively few cross-cutting ties across social groups, leading to exclusion of the non-dominant groups. The chief characteristic of Quadrant 2 is latent conflict. Countries in this quadrant might include South Africa under apartheid, Latin American countries with large indigenous populations such as Peru and Mexico, some well performing Indian states which exclude lower caste and tribal groups, the USA with high exclusion of minority groups, Germany and many of the countries in Eastern Europe. Excluded groups may eventually organize across communities, leading to social movements that challenge the status quo and the power of the state. If these societies open up to the excluded and explicitly build bridges across social groups, they may prosper and eventually move into Quadrant 1.

Alternatively, they may degenerate into Quadrant 3 (labeled Conflict), becoming embroiled in prolonged conflict, violence, civil war or anarchy with gradual dissolution of the functioning state. As the state ceases to fulfil its functions, the primary social groups become informal substitutes for the state, and power and authority are taken over by 'warlords', the mafia, guerrilla movements and other groups which use guns, violence and coercion.

When societies are characterized by social groups with abundant cross-cutting ties and poorly functioning governments, as in Quadrant 4 (labeled Coping), the informal networks become substitutes for the failed state and form the basis for coping strategies. These include informal credit, informal contractual arrangements, increased informal activities and self-employment, barter and “gray” economies, community-run basic schools and health clinics, and so on. In Kenya, a participatory poverty assessment in six districts documented approximately 30,000 self-help groups in rural areas, with no or little contact with any government agencies (Narayan and Nyamwaya, 1996). In Russia, Richard Rose (1995) has documented the informal coping networks that emerged with the collapse of the communist state. With increasing conflict and lawlessness, Russia may be moving into Quadrant 3.

The current development paradigm focuses exclusively on reforming the state or markets to help countries prosper, and has had mixed success at best. The framework outlined above suggests that interventions aimed at economic prosperity need to take into account underlying social organization, and actively facilitate cross-cutting social interactions of previously isolated and even warring groups. This does not mean government mandating heterogeneity of membership in formal groups and associations. But it does mean creating economic, political, institutional and social incentives to help build physical and social space in which cross-cutting linkages among people from different social groups can begin to emerge.

Table 1 lists a number of important factors that contribute to well being and the relevant informal and formal institutions. It also underlines the relationships of substitution and complementarity between institutions. In the ideal, complementary relationship, there will be close collaboration between informal and formal institutions. Conversely, when the corresponding institutions are far apart, substitution will predominate. Suppose, for example, that Trust were the contributing factor in question. In the best of circumstances, informal institutions regulate trust through social mechanisms, rewarding trustworthy behavior and applying social sanctions such as ostracism and shame to those who violate the norms. Formal institutions strengthen the overall environment of trust through equitable access to justice, the rule of law, enforceable contracts, and a police force that protects citizens. Values of trust and mutual respect can also be reinforced through appropriate school curricula. When the formal system fails, vigilante groups or gangs accountable to no one may emerge.

In addition, the Table reminds us that not all forms of traditional social capital are benign, and that some state actions are required to negate the effects of exclusionary or conflictual forms

of social capital. For example, gender differentials in feeding and taking care of sick children are widely biased against girls. Public policy interventions that increase the status of girls, for instance through scholarship programs, could over time change local norms about the respective value of boy and girl children.

Table 1. Role of Formal and Informal Institutions in Promoting Well Being

Contributing Factors	Informal Institutions	Formal Institutions
1. Information: <ul style="list-style-type: none"> • Markets, prices, product innovations • Values, opinions, beliefs • Political leaders, state performance 	Families, friends, peers, neighbors, kin, ethnic networks, informal groups, work related networks; festivals, rituals, sports events, story telling, religious activities, civil society groups	<ul style="list-style-type: none"> • Newspapers, trade journals, magazines, books, radios, television, internet, freedom of press, information disclosure laws; regulations • Provision of infrastructure; roads, post offices, electricity, telephones • Schools, school curriculum • Political competition, citizenship rights, freedom to associate, independent audits, civil society participation and other accountability mechanisms
2. Trust	Norms, values, interpersonal relations, social sanctions	<ul style="list-style-type: none"> • Rule of law, independent judiciary, equity before law, enforceable human, consumer and property rights and contracts at low personal and financial cost; • Secure financial institutions • Schools, school curriculum, educational institutions, values education • Citizen participation in state activities and accountability mechanisms
3. Managing Risk: Health Livelihood	Differential health care spending, and selective feeding to optimize chances of survival of the ‘breadwinners’; Home-based care Within family diversification; kin or social group network; inter-generational transfer; work related networks, civil society groups	<ul style="list-style-type: none"> • Health insurance policies; subsidized healthcare for the poor in clinics and hospitals; education; positive investment in girls • Investment in human capability; stimulating livelihood opportunities; unemployment insurance, social security, safety net schemes; pensions; laws enforced for open and fair hiring based on merit; investment incentives for private sector
4. Credit	Ethnic groups, kin networks, friends, money lender, revolving credit societies, civil society groups	<ul style="list-style-type: none"> • Banks, credit rating bureaus, training and marketing
5. Local public goods, basic services and common property resources	Community groups and committees	<ul style="list-style-type: none"> • Co-production with local groups through direct or indirect representation
6. Child care and socialization	Families, neighbors, friends, religious institutions	<ul style="list-style-type: none"> • Day care, nursery schools, schools, school based clubs, media; parent education, counseling
7. Dispute management and resolution	Family, extended kin, ethnic network, traditional council, church, community groups	<ul style="list-style-type: none"> • Lawyers, courts, tribunals, dispute resolution bodies, small court claims, mediation centers, police, social worker, alternative dispute resolution mechanisms
8. Security	Norms, self-policing, neighborhood or social group based security systems	<ul style="list-style-type: none"> • Police, armed forces, security personnel, laws about carrying arms by citizens, law enforcement and fairness in law enforcement, zoning laws, investment incentives to private sector

SECTION 4: THE EMPIRICAL EVIDENCE

As traditional growth models have failed to explain satisfactorily differences in growth rates between countries, researchers have increasingly turned to non-economic variables for explanations. However, this extension of interest to social characteristics has been limited by extremely weak data sets. Fedderke and Klitgaard (1998), for instance, use a series of social outcome measures such as divorce and rape rates that are beset with underreporting problems. In addition, divorce rates are a reflection of both culture and laws, and are not necessarily a good proxy for judging marital discord. Despite data problems, the pattern of findings that emerge from the recent literature supports the picture emerging from the four quadrants of Figure 1, and the underlying relationships posited between associationalism, government performance and economic and social outcomes.

Quadrant 1 – Well-Being: Well-Functioning Government, Abundant Cross-Cutting Ties

Several authors examine the relationship between economic development of nation states, government quality and social capital. Given the limited quality of existing social capital measures, all authors use proxy indicators. Fedderke and Klitgaard (1998) examined the relationship between the level of per capita GDP in 1960 and 1985 as well as the average growth of per capita GDP and an exhaustive list of political and social institutional indicators. They found that higher levels of GDP were associated with greater civil and political rights. This included protection of human rights, tolerance for diversity and compromise in conflict. They also found that higher levels of GDP were associated with lower levels of political instability and higher levels of efficiency in public institutions, as measured by the efficiency of the judiciary and civil service bureaucracy and lower corruption. Within these three clusters, various measures were highly correlated. The relationship was stronger for levels than for growth rates. Of some interest is that the authors found a negative correlation, albeit not particularly strong (-.36), between ethno-linguistic fragmentation and growth. A one-standard deviation increase in ethno-linguistic fragmentation (equivalent to ranking Korea, the most homogenous country in the sample, next to Mexico or Panama) would result in a .7 percent decrease in the average annual growth rate. However, the cluster of political, social and institutional efficiency measures are all positively associated with GDP levels.

Making creative use of the Adelman-Taft (AM) index of socio-economic development, Temple and Johnson (1998) demonstrate that social capability measured in the 1960s predicted more accurately than conventional indicators which countries would grow in the 1980s. They conclude that over a period of 25 years, a one standard deviation increase in this variable would raise the annual growth rate by 1.8 percentage points. As an illustrative example, if India had achieved the same level of social development on this measure as South Korea by 1960, then its income per capita would have grown at just about three percent a year instead of 1.3 percent. India's income per capita in 1985 would then have been almost 60 percent higher.

These findings have been criticized because the AM index included some economic indicators rather than pure social indicators. For further analysis, Temple and Johnson use four social indicators, to capture underlying social arrangements. They are: kinship (dominance of the immediate family over the extended family or clan and tribal allegiances); modernization of outlook (which included an assessment of social and political participation through voluntary associations and also the support for political and economic modernization); the extent of mass communications (newspaper circulation and number of radios per head); and the importance of an indigenous middle class (proportion of men employed in the professions in contrast to number of expatriates in these professions). They run regressions using these four components.

All the social variables except outlook have statistically significant relations with growth. The relationship between mass communications and growth remains robust even after controlling for a range of human capital, trade policy, political stability and ethnic fragmentation. The authors conclude by suggesting that the extent of mass communication maybe a good proxy for the strength of civic communities, as reflected in trust and membership of associations.

Temple and Johnson (1998) also examine the relationship between measures of trust and associational activity as measured in the World Values Survey and their social indicators. Although the overlap in countries from the two data sets was only 10, the results are suggestive. They find negative or insignificant relations between the two sets of social measures except when they divide up the associational activity measure into groups that are likely to be distributional coalitions (negative correlation) and groups that are Putnamesque (positive correlation).

La Porta and colleagues (1997) once again used the trust data from the World Values Survey to examine the thesis that trust or social capital determines the performance of society's institutions through cross-country regressions. Trust is the propensity to co-operate. They argue that trust is needed more to support co-operation between strangers or between those who

encounter each other infrequently, as in large organizations not involved in co-production. One such large organization is the government, in which bureaucrats have to co-operate with a large number of other bureaucrats and citizens whom they may never see again to deliver public goods. This argument holds equally true for the performance of large firms who must trust their employees (Fukuyama, 1995).

La Porta et al (1997) find the effects of trust on government performance (as measured by efficiency of the judiciary, corruption, bureaucratic quality, tax compliance and civic participation) to be both statistically significant and quantitatively large. In addition they test Fukuyama's thesis that family loyalty is detrimental to the growth of large corporations, and that trust beyond the family has to become the basis for co-operation for this transition to occur. La Porta et al find a positive coefficient between the relative share of the top 20 firms and trust in people, 0.654 ($t=4.1$), and a negative coefficient with trust in family, -.563 ($t=-3.1$). This appears to confirm Fukuyama's thesis that for the development of large corporations, trust has to transcend the primary group of the family. The authors also found a small but significant effect of trust on infrastructure quality and adequacy, infant mortality and on educational achievement.

Expanding Putnam's (1993) argument that the Roman Catholic church lowers trust in society by imposing a hierarchical structure on society, La Porta et al include two other hierarchical religions, the Eastern Orthodox church and Islam. They find a strong negative correlation between hierarchical religions and trust (-0.61). Holding per capita income constant, they find that countries with more dominant hierarchical religions have less efficient judiciaries, greater corruption, lower quality bureaucracies, higher rates of tax evasion, lower rates of participation in civic activities, lower importance of large firms in the economy, inferior infrastructure and higher inflation. The results remain unchanged when hierarchical religion is used as an instrument for trust. Developed industrialized countries are over-represented in the sample.

Finally, Knack and Keefer (1997), also using the same World Values Data set from 29 market economies, conclude that trust and civic co-operation are associated with stronger economic performance. However, associational activity is not correlated with economic performance, contrary to Putnam's findings about Italy. They speculate that any positive effects of groups may be balanced by the damage done by distributional coalitions - the Olson (1982) thesis. This speculation is not borne out by their analysis, however, since the measure of associations is weak and does not include intensity of participation in groups or the nature of

groups. They also conclude that trust and civic co-operation are stronger in countries with formal institutions that effectively protect property and contract rights, and in countries that are less polarized along lines of class and ethnicity. It is important to note that ethnic diversity does not necessarily mean polarization.¹⁶ The “ethnic polarization” measure the authors use, the percent belonging to the largest ethnic group, is different from the ethno-linguistic fractionation measure used by Easterly and Levine (1995) in their study of the tragedy of growth in Africa. The latter measure the probability that two randomly selected persons from a given country will not belong to the same ethno-linguistic group.

Quadrant 2 – Exclusion: Well-Functioning Government, Poor Cross-Cutting Ties

This section examines the relationship between income inequality, which in the absence of more direct measures is used as a proxy for exclusion; growth, inequality and government performance; and ethnic heterogeneity, growth and government performance. Despite limitations of proxy indicators for social capital, the patterns of results which emerge point to the importance of cross-cutting ties across social groups for engendering co-operation, trust and social and economic well-being and better government performance.

Dani Rodrik broke new ground in a 1997 paper, *Where Did All the Growth Go? External Shocks, Social Conflict and Growth Collapses*. In it, he examines the interactions between social conflict and external shocks on the one hand, and the domestic conflict-mediating institutions on the other to explain the persistence of growth and the magnitude of growth collapses in the 1970s. Rodrik argues that when social divisions run deep and the institutions of conflict management are weak, exogenous shocks trigger distributional conflicts. Such conflicts diminish the productivity with which a society’s resources are utilized and divert activities from the entrepreneurial sphere to the political sphere. Using econometric evidence, he concludes that the countries that experienced the sharpest drops in growth after 1975 were those with socially divided societies as measured by indicators of income inequality, ethnic and linguistic fragmentation and/or conflict and social trust). These countries also had weak institutions of conflict management measured by the quality of governmental institutions, honest and non-corrupt bureaucracy, rule of law, democratic rights and institutionalized modes of social safety nets.

¹⁶ Rather than using the more neutral term of ethnic heterogeneity or diversity, most authors use more loaded terms such as fracturation or fragmentation.

Rodrik found that ethno-linguistic fragmentation was not strongly linked to income inequality ($r=0.13$), but remained significant even after controlling for institutional quality. Hence the evidence suggests that ethnic cleavages matter in the ability to manage shocks even after the quality of institutions is controlled for. To test the robustness of this conclusion, he uses additional measure of social divisions, such as home language, the proportion of people who speak the country's official language at home, racial tension, lack of trust, and the Gini coefficient for land. The relation between these social conflict proxy measures and the growth differential between 1960-75 and 1975-89 was negative and significant. The correlations between the measures varied, thus each measure is capturing a different social characteristic. For example, he found that "no trust" is highly correlated with income inequality, but not with ethnic and linguistic measures.

Fedderke and Klitgaard (1998) found significant correlations between income inequality, degree of hierarchical steepness in society and degree of individualism (Hofstede cultural variables) and levels of per capital GDP, but not with growth. Knack and Keefer (1997) demonstrate that the Gini coefficient for income inequality is strongly associated with lower trust and civic co-operation. They also demonstrate that limits on executive power increase trust.

When income inequality is considered a proxy (albeit imperfect) of social cleavages and social exclusion, two findings are worth noting. First is the fact that measures of income inequality are quite stable, even during periods of rapid growth. A possible interpretation is that since the dominant social groups make policy and resource allocation decisions, these decisions reinforce their power and prosperity, and hence policy interventions do not result in major changes for those excluded. The second consistent finding is that countries with initial unequal income distributions experience slower growth. This finding is even stronger for initial unequal distribution of land in developing countries (Deininger and Squire, 1997). Birdsall and Sabot (1994) come to similar conclusions in comparing high inequality and low growth in Latin America and low inequality and high growth in East Asia, but they turn to political economy considerations to explain the different strategies in the two regions. In Latin America, the political elite has little incentive to invest in the well-being of the poor, but in East Asia the threat of communist insurgency led to government investment in the rural poor, in education and health and in rural infrastructure. Larraín and Vergara (1997), using data for 45 developed and developing countries, conclude that distributive inequalities give rise to social pressures and conflict, and these in turn generate greater instability in economic policies and lower investment. Rodrik (1997) also concludes on the basis of cross-country regressions that severe income

inequality is a threat to political and economic stability. When people see some living in luxury while others are impoverished, it creates social unrest that typically culminates in the overthrow of government, disruption of the local economy and collapse of foreign investor confidence.

Negative associations between the ethnic diversity of societies and growth have been reported by authors such as Easterly and Levine (1995) and Mauro (1995). Collier and Gunning (1997) demonstrate that ethnic fractionalization negatively affects policy and reduces productivity more directly. They also show that the correlations are stronger with the delivery of public services such as schools and telephones, and weaker for macroeconomic policy. The wide use of the ethno-linguistic fragmentation indicator has created a mindset in which equates ethnic diversity with economic and political disaster, particularly in Africa. In an important study, Collier and Hoeffler (1998) establish that the relationship between civil war and ethnic fractionalization is not linear. The most unstable societies are those in which the index is around 45-50, societies with two fairly equal ethnic groups. On the other hand, highly fractionalized societies, such as are found in many countries in Africa (average score of 67.6), are as stable as the most homogenous societies.

In Latin America, by contrast, if one groups all the non-Spanish indigenous people together and all the Spanish speakers together, many Latin American countries then consist of two large groups with little interaction across groups, a situation rife with latent conflict. A recently completed poverty study in Peru found that the overall poverty levels had declined in Peru. However, the non-Spanish speaking population had not been integrated politically, socially or economically. In fact it had fallen further behind in income terms even after controlling for education, location, access to services, land and or house ownership (Hentschel et al, 1998).

To complement findings from cross-country data, and to understand the importance of cross-cutting ties in reducing exclusion even in multi-racial, multiethnic industrialized countries, it is useful to examine within-country data. Sustainable economic development requires reciprocal on-going relationships and networks beyond narrow geographic, ethnic or political communities in order to ensure access to additional resources (Portes and Sensebrenner, 1993).

Verba et al (1996) in *Voice and Equality: Civic Voluntarism and American Politics* address the issue of inequality and the decline in civic engagement in the last three decades in the United States. They demonstrate that politicians listen primarily to those with college education and those who make contributions to political campaigns, which leads to selective hearing of interests of those who are educated, wealthy and organized. Their findings are based on a

nationally representative sample of 15,000 Americans. They argue that citizen participation is the heart of a functioning democracy in which politicians respond to citizen concerns, interests, preferences and needs. This presumes that the voice of citizens is clear, understood, and loud so policymakers have an incentive to pay attention to what is being said. In the US, as dollars have substituted for time as inputs into the political campaigns, Verba et al show how participation in the political process becomes skewed to the wealthy and is responsive to their priorities and concerns. “When money replaces time as the principle form of political currency, the playing field is no longer level” (1997, p.21). The voice of the poor gets drowned out, which leads to their greater exclusion. The figures show that the top 3 percent of the sample with family incomes over \$125,000 produce more than their proportionate share of the vote, protests, campaign hours and 35 percent of the money contributed. The top two income groups, with annual incomes over \$75,000 account for more than half the money contributed to political campaigns, while the bottom 20 percent of the income distribution, with incomes less than \$15,000 produce only 14 percent of the vote and 2 percent of the campaign dollars.

These distinctions are important because there is limited overlap of concerns and interests between these two groups. The disadvantaged, roughly one-sixth of the public with no education beyond high school, are more than twice as likely, and those receiving means-tested welfare benefits are four times as likely, to focus on basic human needs, poverty, jobs, housing and health. The concerns of the more advantaged are linked to economic issues, such as taxes, government spending, budget, and social/moral issues, such as abortion or pornography. In sum, public officials hear many more messages from the advantaged than from the poor because the former belong to many more organizations that mobilize voice and resources. The authors conclude that the only way to have the voices of the poor heard is through creating organizations of the poor. These organizations can be political or non-political or religious. Working within these organizations, the disadvantaged can learn new civic skills and networking that provides the basis for the emergence of social and political movements. The civil rights movement is a case in point.

Although the norms about racial equality have changed in the US since the civil rights movement, exclusion based on race is still common, subtle in the higher echelons of society and more blatant against those who live in low income areas. The disadvantaged may be excluded not because of active discrimination, but because of non-overlapping social networks. What is striking about US society is the lack of interconnectedness in social and civic life between whites and blacks. Varshney (1998) argues that the different degrees of civic connectedness among

blacks and whites explain why race riots in the 1960s occurred in many northern cities and in Los Angeles, but not in southern cities. Studies showed that income inequalities between black and white Americans explained neither the timing nor the location of riots (Horowitz, 1983). Rather the explanation appears to lie in degree of contact and integration of black Americans into local life, in this case local government structures (Liberson and Silverman, 1965). This lack of overlapping social networks has many negative consequences for those excluded.

Friedman and Krackhardt (1997) come to similar conclusions in a very different context. They conclude that Asian Chinese and Asian Indians do not rise to high and influential positions in the US computer industry, despite high educational achievements, because they are excluded from the social networks of the dominant group, in this case European Americans. The authors use network analysis to study five workgroups in the computer industry in the U.S. Similarly, a recent study in the United Kingdom by Gordon and Swift (1993) examines whether social status and occupational attainment are based on merit or on the social status of one's family. They find that, after controlling for education, an individual whose parents are in high service occupations is more likely to be in a high service occupation than an individual from a working class background. They conclude that occupation is not determined solely or even primarily by merit, but is determined to a large extent by one's parents' social class or occupational background.

The exclusion of large numbers of people from participation in the benefits of development, in a governance environment of some degree of law and order and protection of basic human rights, creates an environment of political opportunity, contentious politics and the emergence of social movements linked to institutional politics. Three political scientists stand out in the field of social movements, namely Charles Tilly (1978); Theda Skocpol (1979); and Sidney Tarrow (1998). Tarrow uses two terms to frame a broad theory of social movements: contentious politics, and political opportunity structure. Contentious politics occur when ordinary people, often in league with more influential citizens, join forces in confrontation with elites, authorities and opponents. Contentious politics are triggered when changing political opportunities and constraints create incentives for social actors who lack resources on their own. When their contention is backed by dense social networks and galvanized by culturally resonant symbols, contentious politics lead to sustained interaction with opponents. The result is a social movement.

Tarrow (1998) defines a social movement as collective challenges, based on common purpose and social solidarities, in sustained interaction with elites, opponents, and authorities. Unlike corporate interest groups or political parties, social movements especially in the early

stages lack money, organization and access to the state, and hence depend on the collective challenge to gain attention and create constituencies. While it is commonly accepted that collective action is based on shared purpose or interest, social movements also tap deeper feelings of solidarity or identity, that which gives shared meaning. Social movements persist when they are embedded in dense interlocking social networks. It is only when there is “connective structure” between members of groups that the action of one can incite another. Social movements have to go beyond isolated incidents before they become a movement that persists in time and space.

While most collective action is based on physical proximity and face to face interaction, the advent of the press resulting in newspapers and pamphlets (Chartier, 1991) and more recently of the internet, created the possibility of connecting people in different places in a movement (Castells, 1997). Most importantly, newspaper readership helped link people across class boundaries and resulted in powerful national movements, such as the abolition of slavery in Britain, the French revolution and American independence. “The loose ties created by print and association, by newspapers, pamphlets and informal social networks, made possible a degree of coordinated collective action across groups and classes that the supposedly ‘strong ties’ of social class seldom accomplished” (Tarrow, 1998, page 51). Hence the strengthening of social capital among groups and across groups, and shifts in societal power structure, are a complex function of politics, political opportunity structures and access to communications technology.

Using Tarrow’s concepts of contentious politics and political opportunity, Fox (1996) shows how some indigenous groups can successfully organize to challenge the power of a repressive state. Mexico has the largest population of indigenous groups in Latin America, a population of 10 million, comprising 56 officially recognized ethno-linguistic groups. Fox demonstrates that indigenous communities are high in social solidarity and horizontal decision making, i.e. high in social capital, but still among the poorest in Mexico. He shows that these communities of scattered population can be successful when they network with other geographically spread out communities, find allies in political elites, or are supported by other non-political elites, such as the Catholic church. Only then do they have sufficient bargaining power to successfully challenge local power structures, overcome the repression imposed by authoritarian regimes, and access the power and resources of the state to meet their basic needs.

If national policies become inclusive, and co-production with the state or other allies becomes commonplace, countries (or regions within countries) can move into the first quadrant.

Heller (1996) argues that underlying Kerala's development transformation in recent years has been a transformation of primary caste and community ties and identity to more universalistic principles and identity, achieved by political party activists. He notes that "the natural outcome of a vigorous civil society rooted in interests bounded by parochial loyalties is not development, but a kind of demand overload." In recent years, strategic use of the internet and the global media has also facilitated social movements which successfully challenged the power of exclusionary states in countries characterized with limited protection by the law or law and order agencies. This is true for the Philippines, for the indigenous movements in Chiapas, Mexico (Castells, 1997) and more recently in Indonesia.

Quadrant 3 – Conflict: Dysfunctional or Collapsed State, Limited Cross-Cutting Ties

Income inequality, isolated primary groups and a governance structure which is co-opted by a few, unaccountable to the majority, can lead to violence, conflict and high levels of crime. The effective power of the state can be taken over by those who exercise the most force and coercion, and in effect run parallel economies and substitute governance structures. When the state authority, law and order extend irregularly across territory and functional relations (including class, ethnic and gender relations), power centers shift away from the state to extra-legal authorities that co-exist with the state but remain autonomous of it. In many countries emerging from war, the authority of the state remains limited to the center, with loss of control and legitimacy over the periphery. Power gets usurped from a weak state and used for personal rule and control. The impunity of drug trade, unlawful treatment of the poor by the police or local mafia, high crime rates, rich communities behind high security fences are all examples of the crisis of the state.

Haiti provides ample evidence of the degeneration into violence and civil war when social cleavages deepen, and formal institutions become instruments for control and private riches for one social group while others live in poverty and personal insecurity. White and Smucker (1998) trace today's social cleavages and failure of the state to the colonial days. In 1804, when Haiti became the first nation to gain independence from a European colonial power, two social groups emerged with different interests. One was a large number of newly freed slaves, who fought for personal freedom from bondage, and the other was a small class of freed people of color (which included the wealthy) who fought for economic and political freedom. "These sharply defined social distinctions where neither class assumed responsibility for providing the national public

good set the stage for Haiti's evolution as an independent but deeply divided society." White and Smucker describe social capital as "truncated", rich at the local level but weak at regional and national levels. Peasant social groupings are local, stable, autonomous, self-governed and based on reciprocity. These social groups feel insecure, fear and actively avoid the state, and establish 'furtive' agricultural units on the margins of society. In the presence of an oppressive state and the absence of state provided services, these informal social relations become substitutes and serve as the primary social safety nets for the poor. The Haitian state, despite recent changes, is marked by political intolerance, patronage, extraction of wealth and lack of protection for the majority of its citizens.

Mauricio Rubio (1997) shows how in Colombia the existence of a large and growing illegal and underground economy run by powerful criminal organizations has resulted in parallel institutional environments that reward and favor opportunistic and criminal behaviors. Rubio shows how high levels of social capital within 'criminal' organizations are directed to extra-legal activities, rent seeking and high returns exclusively for those involved in such activities. The organizations that run in parallel with government institutions actually provide higher returns to those who participate than a regular career would offer. He estimates that between 1980 and 1993, the average remuneration for minor criminal activities, excluding drug trafficking and kidnapping, tripled in real terms, while returns for formal work remained stagnant. Currently, the annual income of a petty criminal in Colombia is around \$20,000 per year, about 10 times the per capita GDP. Two surveys, National Survey of Quality of Life, and Quality of Life in Bogota provide some sobering statistics. In addition to the staggering statistics on homicides in Colombia, 54 percent of the barrios reported problems with conflict, drugs, gangs or prostitution (Knaul and Patrinos, 1998).

Based on a study of persistent inter-communal violence in India in particular cities, Varshney (1998) argues that there is an integral link between the structure of civic life in a multiethnic society and ethnic conflict. Inter-ethnic networks become agents of peace because they build bridges and manage tensions, but if communities are organized only on intra-ethnic lines and the interconnections with other communities do not exist, ethnic violence is quite likely. He divides both inter- and intra-ethnic networks into associational forms of engagement (formal) and everyday forms of engagement. Associational networks include professional organizations, reading clubs, cadre-based political parties, film clubs, NGOs. Everyday forms of engagement consist of simple, routine interactions such as families visiting each other, children playing together, joint participation in festivals, or eating together. He concludes that while both forms of

social interaction are important, in large cities associational forms are sturdier than everyday forms of engagement, especially when confronted with attempts by politicians to polarize people on ethnic lines.

Quadrant 4 – Coping: Poorly Functioning State, Abundant Cross-Cutting Ties

Societies with higher levels of cross-cutting ties rather than deep social cleavages and ineffective or co-opted states are characterized by the substitution of the formal system by informal systems. If the state is not totalitarian or coercive, societies may not disintegrate into widespread crime, violence or war, but large segments of society are left to their own devices to cope in the best ways they can.

Richard Rose (1995) uses the term “hour-glass society” to describe such societies, like Russia during the transition. There is a rich social life at the base, consisting of strong informal networks relying on trust between friends, relatives and other face-to-face groups and which may include friends of friends. At the top of the hour glass, there is rich political and social life, as elites compete for power, wealth and prestige. There is co-operation within and between elites and formal institutions as the elites use the resources of the state for their own betterment. The narrow mid-point of the hour-glass insulates individuals from the influence of the state, and citizens can be described as “negatively integrated” from the demands of potentially oppressive state. The state on the other hand tolerates small-scale “rogue” organizations as long as they do not interfere with the affairs of the state.

Using data from the New Russia Barometer, a nation-wide survey, Rose documents that only one in eight reported that they earned enough from their official jobs to meet their basic needs. The majority get by because in addition to the official economy, they rely on a multiplicity of unofficial economies such as growing food, exchanging help and services with friends, having a second job or depending on tips and bribes. There is a vast disconnect between the rich social mechanisms and exchanges at the bottom and local formal institutions. Three-quarters of the people also said that they never participated in local level formal institutions. The same proportion said that most people cannot be trusted and that one had to be careful in dealing with people. The level of distrust in political parties, parliament, police, court and civil servants ranged from 71 percent to 83 percent. When asked if they expected fair treatment, 70 percent responded

no of the local government and the police. Distrust in the formal institutions combined with high inflationary pressures in Russia results in “100 friends being worth more than ten million rubles.”

This hour glass metaphor fits many developing countries, in which formal institutions are marked by high levels of corruption, and the informal systems of coping become the primary sources for safety, insurance and livelihood for the majority. These networks can become overextended, and unless there are strong allies outside the communities the informal groups remain isolated and economically stagnant. It is in these environments, when there is political space to organize, that civil society emerges and often begins to function as a shadow government, providing services that the state is incapable of providing. Civil society movements may be crushed by the political regime, or may alternatively become forces for transformation of the state. In effect, this means moving from a role of substitution to one of complementarity with the state. The case of BRAC (the Bangladesh Rural Advancement Committee) is an example of the latter. As a Bangladeshi NGO, BRAC provided an extensive network of schools for the poor without any state involvement, and was initially perceived to be a competitor and threat to the power of the state. In fact, it was a substitute for the failure of the state to provide basic education services to poor children. Over time, however, the state has become a partner with BRAC in reaching the poor with these services.

Collier and Gunning (1997) characterize most African governments as being run by small educated elites, who are neither accountable nor responsive to the needs of the large majority of the population, who send the wrong incentive signals and thus discourage private investment, who spawn high levels of corruption, who draw most of their support from urban areas, and who suppress civil liberties so as to prevent those excluded from organizing protest. This governance environment results in poor returns to public investment, poor performance of publicly provided infrastructure services (roads, railways, electricity, telephones) and low expenditure on social security transfers.

Kenya, for example, has a strong tradition of self-help, *harambee*. Overuse of this tradition has left people exhausted and disinclined to participate in any *harambee* initiated by the government. A participatory poverty assessment in Kenya estimated that there are over 30,000 small self-help groups, primarily of the poor. The activities of these groups range from raising chickens to helping with school and hospital fees, or revolving credit and savings. Yet the vast majority of these groups, especially among the poor, remain isolated solidarity groups caught in poverty traps. Those groups with membership extending across income groups are able to benefit

the poor more because of their greater ability to mobilize resources (Narayan and Nyamwaya, 1996). Despite outbreaks of state initiated tribal violence in recent years, ethnic tension was not mentioned as a problem by people in any of 30 communities across the country.

Similarly, in neighboring Tanzania composed of over 300 ethnic groups, years of socialism and villagization programs have led to a strong sense of national identity which appears to supersede ethnic identity. Tanzania, despite acute poverty and a bankrupt state, has not experienced ethnic violence or polarization. In a participatory poverty assessment conducted in 87 communities across Tanzania, people explicitly linked peace and community economic levels to informal groups with cross-ethnic membership (Narayan, 1997).

In a study on entrepreneurship in Ghana, Barr (1997, 1998) finds that the small, cohesive solidarity networks of the Ghanaian entrepreneurs seem to function as a substitute for formal institutions and markets, while the larger more diverse networks of non-Ghanaian entrepreneurs provide better access to information about markets and technologies.

Several recent studies conducted as part of the World Bank's Local Level Institutions Study (Grootaert and Narayan, 1999) confirm the importance of heterogeneity in group membership and economic outcomes. This pattern of results is found in rural Tanzania (Narayan and Pritchett, 1997) in Indonesia (Grootaert, 1998), and in Burkina Faso (Grootaert, Swamy and Oh, 1999).

Other studies, particularly from Latin America, show time and again that despite high ratings in community solidarity, indigenous communities remain poor with few connections to the powerful within or outside the community. While they may manage to attract government provided basic social infrastructure, this does not result in production opportunities. There is little evidence that indigenous social organizations are providing the foundation for indigenous groups to mobilize either for fundamental rights or for greater access to economic and political participation (Junho Peña and Lindo-Fuentes, 1998; Gacitua-Mario, 1998). In the absence of outside allies, indigenous social capital of poor communities remains a substitute for the resources and services that are normally provided by the state.

All over the developing world, the poor and the middle class survive and have developed ingenious strategies to survive. Self-provision in water and sanitation services is still the norm, as one billion people remain without access to safe water and two billion people without adequate sanitation. Informal child care arrangements in urban slums as mothers go to work abound,

community based schools and sometimes health care, management of forest resources and common property resources, informal credit mechanisms and saving strategies – all these work, but they trap people in low productivity, and make them risk averse.

Improvements in service delivery are possible within segments of society, even when many aspects of the state are dysfunctional. This is evidenced in the widespread success of demand-oriented service delivery, in which government agencies have successfully redesigned themselves away from delivering services to working with local groups as partners in “co-production”. Examples include government provision of teachers, textbooks, curricula and training for community managed primary schools in Baluchistan, Pakistan. Elsewhere in Pakistan (Orangi in Karachi) as well as in Recife, Brazil, governments are providing main trunk and secondary sewers in low income urban neighborhoods, while communities raise resources for and manage household connections. In West Bengal, India, the government is providing technical know how, and sharing benefits through joint management of forests with community groups. In all parts of the world, there are government programs providing the capital costs for rural water systems, relying on communities for their local knowledge, management, and operation and maintenance. In Taiwan, Indonesia, India, Mexico and Turkey there are irrigation schemes following the same principles. And there are micro-credit programs for the poor all over South Asia, Latin America and Africa, with groups monitoring performance and helping clients to graduate out of the program to starting using local banks. All these examples succeed when the overall rules of the game are fair and transparent, and when the needs, priorities, skills and organizational capacity of local groups are complemented by timely technical, financial assistance, organizational know-how provided by government agencies, civil society or the private sector.

SECTION 5: POLICY IMPLICATIONS

Two sets of policy implications flow from the foregoing analysis. The first set deals with how countries (or communities within countries) can strengthen cross-cutting ties and governance to improve economic and social well being (movements towards Quadrant 1 in the framework). The second set includes practical social policy interventions that are likely to be helpful.

MOVEMENT TOWARDS WELL-BEING

Cohesive family, clan or tribal groups lay the foundation for social and economic well-being, but it is only when these groups develop ties (both weak and dense) with other social groups that societies can build cohesive webs of cross-cutting social relations at all levels. Societies in Western Europe, particularly the Scandinavian countries and the Netherlands, have achieved high levels of social inclusion, peace and economic prosperity, which would place them in Quadrant 1 of the framework presented in Figure 1. In the Netherlands for example, adoption of consociational forms of democracy has been given credit for achieving the social cohesion necessary for economic development (Lijphart, 1969, 1977).

Power is unequally distributed in all societies, but societies differ markedly in the degree, extent and permanence of power asymmetries and social exclusion. When the networks of those excluded or disempowered, consist primarily of “people like themselves”, and are not linked to outside groups, information, power, and resources, the networks serve an important insurance and solidarity function. However, they do not become *agents for transformation* into high return production groups or into powerful social movements which challenge the powers of the state. In Latin America, it is only when indigenous groups become included in local governance structures, or when they form alliances with other indigenous groups in the country that are they able to claim attention and resources of the state. The same is true for lower caste groups in India or for the inclusion of African Americans in US society. Similarly, successful strategies for service provision to excluded groups, such as micro-credit schemes, initially take advantage of social solidarity among small groups of the poor to extend credit to those without formal collateral. But over time, as a deliberate strategy, they socialize poor clients in the methods of formal institutions, and actively help connect the poor to the formal banking systems.

Latent conflict between the dominant groups and those excluded is a characteristic of Quadrant 2 (Exclusion) in Figure 1. To move towards economic and social well-being, states have to:

- develop mechanisms for inclusion of those previously excluded into the formal systems of finance, education and governance
- promote change in values and norms to support inclusion
- create economic opportunities
- encourage social connectivity between the excluded and those in power in different spheres of activity.

Education and special support in the form of training and mentoring is likely to be needed during the transition, so that previously excluded groups gain the capacity to interact effectively with local governance, educational and financial institutions. This has, for example, been a key element of policy in post-apartheid South Africa.

When the web of cross-cutting linkages across primary social groups is weak or non-existent, and interests of the excluded groups cannot be channeled through formal institutions of the state, conflict and violence between groups based on religion, caste, race, or ethnicity may escalate. Dominant or militant groups co-opt the power of the state to their own ends and become substitutes for the state. A militarized or collapsed state characterizes Quadrant 3 (Conflict) in Figure 1. Because of the absence of cross-cutting ties, the reconstruction of society and state (movement from Quadrant 3 to Quadrant 1) must include participatory processes to create social cohesion, reconciliation, and peace between former enemies; and reintegration of former soldiers into society. Particular attention needs to be paid to mechanisms for power sharing, consultation, justice, governance and provision of security for all. Equally important is equitable distribution of resources among former enemy groups for reconstruction of infrastructure, education, economy and governance across territories inhabited by different groups. Mass media that portray mutual respect, reconciliation and tolerance among previously warring groups can help provide the support needed to heal wounds and increase the probability of re-knitting society.

Widespread economic stagnation and use of coping strategies characterize Quadrant 4 (Coping) in Figure 1. These are societies with dense cross-cutting ties, but when the formal institutions are co-opted by special interest groups, the informal networks and connections between those excluded become overloaded by the burden of trying to offer services previously

(or possibly never) provided by the state. The result of such overloading is that networks of association are reduced to coping strategies. Because of weak reciprocal connections among many different social groups, the collapse of the state need not degenerate into widespread violence and crime. But in this regressive environment, the informal institutions become poor *substitutes* for formal institutions, whether in provision of credit, education, infrastructure, legal protection, security or other basic services. To make progress in this environment, civil society must move beyond the delivery of services, and take on the role of mobilizing social movements to demand changes in governance.

POLICY INTERVENTIONS

To design the right policy intervention, it is vital to understand the nature of a society's formal and informal institutions. Moving from a relationship of substitution to complementarity between informal and formal institutions may involve interventions by the state, the private sector, civil society groups, or all three. Interventions may be at the community level or at the level of national laws, or changes in rules and regulations. Expansion of cross-cutting ties may be promoted through incentive schemes for the private sector or civil society groups supported by the government, or directly through improved communication channels such as roads, telephones and media. Policies need to be tailored to take into account both the level of functioning of the state and the current strength of cross-cutting ties.

It is important to note that the role played by civil society, and the contribution it makes, will differ in the different quadrants of the framework. In Quadrant 1 (Well-being), the key role for civil society groups is to keep the state accountable, and support processes that balance the power of various interest and social groups in society. In Quadrant 2 (Exclusion), the key role is in facilitating the organization and mobilization of excluded groups, identifying potential allies in powerful groups to challenge the state's exclusionary practices. In Quadrant 3 (Conflict), the key roles shift to peace mediation, reconciliation, and reintegration of previously warring and possibly armed groups into society. Finally in Quadrant 4 (Coping), in the absence of an effective state, civil society groups have important roles in service delivery, while at the same time mobilizing society to demand better governance. This means, of course, that civil society organizations will sometimes face the need to transform themselves (e.g. from service delivery to advocacy), a task fully as difficult as transforming society.

In practical terms, the most promising interventions are likely to be of two kinds. First, *investments in the organizational capacity of the poor* are crucial, both at the micro level in direct support of poor people, and at the macro level through changes in laws and rules so as to support associational activity. For example, in Bolivia the Law of Popular Participation established a framework for decentralization with two important components. One was the devolution of fiscal resources and authority to the municipal level, the other was assignment of an oversight role to local communities. The government recruited NGOs to mobilize local communities to fulfil their new role. The NGOs provide training to community groups in how to conduct participatory needs assessments, formulate priorities, collaborate across communities, and monitor municipal decision making and expenditures (Faguet, 1998).

Second, *cross-cutting ties can be fostered directly*, through a variety of mechanisms that fall under seven broad headings:

- Information
- Inclusive participation
- Conflict management mechanisms
- Education and values
- Economic restructuring
- Governance and decentralization
- Demand-driven service delivery

Information

Whether one views social capital through a sociological, political or economic lens, all perspectives lead one to the conclusion that a free information flow is essential for equal opportunity, consensus building, keeping the state accountable, and challenging the state when necessary. Making access to information about employment or investment opportunities widely available helps to offset the information isolation of excluded groups. Information is a public good that can be fostered through easy and equal access to communication channels and public information disclosure laws. Civil society organizations have an important role in informing people about their rights to information.

Perhaps the biggest revolution in the century just ending is the information revolution. The power of newspapers, books, post offices, telephones, cellular telephones, faxes, and the internet to disseminate information quickly is immense. A Nobel prize was won by the organizer of a campaign for the signing of an international treaty on land mines, who conducted the campaign largely from a cabin in the woods in Vermont, U.S.A. Poor, landless women in Bangladesh have become the ones with cellular telephones and the power to connect people to relatives, friends or businesses anywhere in the world, through a program sponsored by Grameen Telecom. Telephones already link poor buyers and sellers to daily market prices for commodities in cities, thus changing their negotiating power with middle-men in fundamental ways, and the internet has the potential for far more. It is clear that government investment in physical infrastructure can play a critical role in supporting connectivity across space and social groups. Examples include roads, power supply, telephones, post offices and community halls that ease communication and movement of people and information, and provide space for different social groups to come together. Civil society organizations may not be much involved in infrastructure investment, but they have an obvious part to play in promoting “connectivity”, and in educating people about their rights to information.

Inclusive participation

Citizen voice, participation and representation of all social groups in state decision making generate consensus, trust and social learning. Citizen and civil society participation challenges the state, and at the same time keeps the state accountable. It is essential for citizens and civil society groups to have access to timely and reasonably independent information about state action and performance, for example through citizen-led audits of government. A good recent example is the independent report produced by citizen groups in India on the state of primary education in that country. The findings of the report have been made widely available, with issues and findings reported and debated in the national media. In some areas in Rajasthan, India, civil society pressure for information disclosure has led to village governments posting in a public space information on all government funds received and detailed accounts of expenditures. This has led to widespread knowledge of fraudulence, and in many cases to corrective action.

Freedom to associate is a prerequisite for open participation and shapes the emergence of civil society organizations. In many countries, restrictive and regressive civil society laws and regulations prevent the emergence of such groups and restrict the mobilization of local resources

to support civil society action. Tax exemptions and other incentives for the private sector to invest in and connect with local communities, invest in poor areas, support local initiatives and leadership development, all nurture civil society development and action without loss of independence.

State accountability and citizen choice are supported by political pluralism and competition at all levels. When citizen groups have the right to elect local and national officials, they have the potential power to have their interests represented in local governance. The interests of excluded groups rarely get represented without contentious politics and collective action by those excluded. But without political pluralism there is rarely any opportunity for recourse. In this area, action by civil society organizations to help excluded groups organize and mobilize is especially important.

Conflict management mechanisms

Every society has conflict resolution mechanisms to protect human and property rights. These are critical to create societies that are socially cohesive, in which people feel secure and are willing to invest. Laws, regulations and fair treatment of all social groups are critical in generating trust and social and economic stability. Access to the judiciary and expectations of quick and 'cheap' justice help promote trust and use of the formal system. Alternative dispute resolution mechanisms are also important, so that disputes can be resolved quickly and less formally.

It is obvious that conflict prevention is better than conflict resolution. The problem, as diplomats and mediators attest, is that there is very little incentive to invest in conflict prevention. The best strategy is to increase social interaction among those social groups that have little do with one another. This could involve use of public space in ways that encourages people from different social and ethnic groups to live, work or engage more frequently together, particularly in multi-ethnic societies. Providing high quality public transportation which all social groups use, and safe public parks, places of worship, community halls, recreational and sports facilities which encourage common civic life will lead to much needed 'weak ties' across social groups. Inclusion of excluded groups in local governance structures is a powerful way of creating new social ties.

The family (however defined) lays the social foundation of societies. But the state has important role to play in providing social and economic safety nets to protect families from breaking apart in the face of violent conflict, and as they adjust to transitions from violence to

peace. These measures might include childcare, health care, counseling, demilitarization and reintegration of soldiers into community life, retraining, and economic cushions for men and women to cope with the transition into new lives. Civil society groups can obviously play a key role in such programs.

Education and values

Many children and youth in rich societies spend the ages between 4 and 22 years in educational institutions. And in all countries the goal includes at least free primary education for everyone. It is clear from the literature on social capital, as well as that on development, that education and literacy matter for economic development. But schools are also critical for the socialization function they perform. Together with families, schools instill values that promote nationhood, citizenship, and ethics, and that recreate societies. While education is important for livelihood issues, its importance in generating social cohesion has been underestimated and overlooked. The language of instruction, the extent of segregation (official or unofficial) of social groups in schools, the extent to which the school curriculum portrays different social groups fairly so as to promote mutual respect and tolerance – all these affect the probability of inter-group harmony, even while each group maintains its distinctive identity.

The state usually takes primary responsibility for education, but civil society organizations can have a major influence on curricula and ensuring adequate performance.

Economic restructuring

Economic restructuring, like civil service reform or the construction of large dams, displaces large numbers of people. Depending on the pre-existing distribution of power and connectivity among social groups, access to new opportunities will also be unequally distributed. Unless careful attention is paid to the existing social institutions, even nominally redistributive programs may reinforce current – or create new – social and economic cleavages. To create opportunities for the inclusion of previously excluded groups means achieving a new alignment of social actors, and requires an investment in understanding the existing social structures, processes and values.

Civil society organizations, including social research institutes, can be valuable partners in understanding the political and economic context within which reform has to be shaped.

Governance and decentralization

The impetus behind current decentralization efforts in more than 70 countries is to bring governance and government resources closer to people. The goal is governments that are responsive to local needs and accountable to local citizens. However, this will only work if two types of institutional mechanisms exist to connect ordinary citizens and their local governments in a two-way flow of information. First, mechanisms are needed for channeling information about government resources, programs and performance to ordinary citizens. Second, mechanisms are needed through which local people can channel their preferences while maintaining their independence of government, so that they can voice dissent without repercussions for their families or social group. The interests of the poor and other marginal groups are not represented unless such groups mobilize and organize.

Few countries embarking on decentralization programs have such mechanisms in place, and even fewer invest resources to educate and mobilize local people to perform their new roles as informed citizens asserting their new rights. The focus is usually on the creation of devolved state structures rather than on the structure of the society in which these new organizational forms have to function. The Law of Popular Participation in Bolivia is one of the few cases where these institutional mechanisms have been thought through. Bolivian civil society organizations are mobilizing efforts to build strong people's organizations, so as to ensure that the Participation Law works for the benefit of indigenous groups.

Demand-oriented service delivery

Co-production between the state and community groups creates synergy and complementarity in the management of local public resources. It also creates local ownership, an essential ingredient of sustainable projects. Collective action for the provision of local public goods, in partnership with agencies external to the community, is important at all levels of development, even though the form of participation may change over time. For example, a person's involvement in a water supply scheme might evolve over the years from collective labor

to dig trenches and lay pipes, through membership on a committee, through belonging to a cooperative venture, eventually to being a paying customer.

Introducing participation and collective action in the management of local resources usually requires fundamental shifts in agency mission, roles, values and indicators of success. Instead of seeing themselves as suppliers of inputs (pipes, sewers, seedlings, electricity), agencies have to become supporters of inclusive local organizations and enablers of resource flows. The necessary shifts in culture and the incentives facing agencies are difficult to bring about, but essential if changes are to be sustained over time.

Civil society organizations have a long history of helping communities to obtain and maintain services that were theoretically provided by state agencies. They can be helpful to state agencies as the latter feel their way in their new roles.

In summary, using the lens of social capital, and especially the concepts of cross-cutting ties among social groups and governance, leads to some interesting new insights for policy design. Interventions can stem from civil society, the private sector, or the state, and cover a wide range of fields, including: changes in rules so as to include those previously excluded in formal governance structures, at local, regional and national levels; political pluralism and citizenship rights; fairness for all social groups before the law; public access to mediation, conflict resolution or negotiation councils; availability of public spaces that bring social groups together; infrastructure that eases communication; education, media and public information policies that reinforce the norms and values supporting tolerance and respect for diversity. But whatever the sector or topic, interventions need to be designed explicitly to enhance *complementarity*. That is, they need to take into account not only their immediate impact on a particular sector, but also their contribution to fostering a rich network of cross-cutting ties within society and between society's informal and formal institutions.

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