

THE INTERACTION OF HUMAN SOCIAL CAPITAL AND SUSTAINABLE ECONOMIC DEVELOPMENT IN NIGERIA

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ABSTRACT

Understanding the makeup of a community's human social capital is fundamental to understanding our capacities to not only absorb change, but potentially to also grow and prosper as a result of it. The elements that comprise both social and human capital intimately interact to provide a 'package' of capacity that dictates a community's ability to adapt to changing circumstances. A community's human capital is comprised of the depth and diversity of skills existing in a community. To be able to use those skills however, we need social networks to connect us with those who need our skills, or government representatives to lead us through the bureaucracy. As a result, both human and social capitals are dealt with in the process of assessing the social component of sustainability, it has been argued that individually, communities, corporate entities or government bodies alone do not possess the resources needed to promote broad based sustainable development. Complementarities and partnerships forged within and across these groups of differing power are also necessary to achieve long term sustainable development. Therefore, this study will examine the interaction between human social capital and sustainable economic development Nigeria.

Key words: Social capital, Economic development, Component of sustainability, financial capital, and Human capital

Introduction

The concept of social capital as an important determinant of economic development is attracting increasing attention among development economists. The concept of economic development and its factors has changed overtime. In general, economic development lies in the increase in welfare, measured as GDP per capital and its growth rate. Broader concept includes also social aspects of development-poverty reduction, better education and health, more equal income distribution etc. In the long run, economic development should be sustainable, which means that

today's developments could not compromise the capacity of future generations to satisfy their needs. Traditional determinants of economic growth and development include physical and natural capacity, technology and also human capital.

However, the differences in the speed of economic development among countries with similar factor endowments and production technologies have called for introduction of new factors of economic development in the last decade of the 20th century. Since earlier theories did not take into account the relational and structural aspect of economic transactions, economists have recently focused on the contribution of social capital to sustainable economic growth and development. Social capital refers to the trust, civic norms and networks that enable collective action and improve market performance by reducing transaction costs. There is a complex relationship between micro and macro-level social capitals

Besides human capital, social and institutional resources are also important for ensuring the economic growth and sustainability of the development process. This issue was lastly raised in 1990s in the context of the conditional convergence theory- it was acknowledged that there are various structural impediments to growth and development, like incomplete property rights, transaction costs, ineffective government policies, income inequality, weak legal and business institutions, capital market imperfections and cultural differences (Yeager, 1999). Most of these development obstacles represent (or are the result of) the lack of social capital.

The price for maintaining a society that encourages cultural differentiation and experimentation is unquestionably the acceptance of a certain amount of disorganization on both the individual and social level. All these reflections contributed remarkably to the development of the social capital concept in the following decades. The appearance of the modern social capital conceptualization is a new way to look at this debate, keeping together the importance of community to build generalized trust and the same time, the importance of individual free choice, in order to create a more cohesive society (Ferragina, 2010). It is for this reason that social capital generated so much interest in the academic and political world (Rose, 1999).

Human Social Capital and Sustainable Economic Development Conceptualized

Early attempts to define social capital focused on the degree to which social capital as a resource should be used for public good or for the benefit of individuals. Putnam (2000) suggested that social capital would facilitate co-operation and mutually supportive relations in communities and nations and would therefore be a valuable means of combating many of the

social disorders inherent in modern societies, for example crime. In contrast to those focusing on the individual benefit derived from the web of social relationships and ties individuals find themselves in attribute social capital to increased personal access to information.

According to this view, individuals could use social capital to further their own career prospects, rather than for the good of organizations.

Social capital consists of the relationship networks that provide feelings of belonging and access to information, knowledge and decision making, and provides a sense of control, security and purpose in our lives. Without the social capital developed through networks with others, we are individuals disconnected from not only our social, but often our economic environment as well, unable to use our human capital (Skills and Knowledge) or apply any physical or financial capital we might have to improve our situation economically. Consequently, understanding the makeup of a community's social capital is fundamental to understanding their capacities to not only absorb change, but potentially to also grow and prosper (Tonts, 2005).

The term social capital has evolved beyond the one dimension of 'ties that bind' or 'bonding' social capital, as it was termed by Putnam (1995), to include 'bridging' and more recently 'linking' networks. A focus on bonding networks alone was criticized as too narrow (Harriss and Renzio, 1998; Levi, 1996; Manderson, 2005; Paxton, 2002), as they only incorporate homogenous relationships. Portes and Landholt (1996) and Woolcock (1998) amongst others, have since identified that 'bridging' networks in the form of 'weak ties' (Granvetter, 1983) between heterogeneous groups are required to mitigate the potentially negative effect of strong bonding social capital. Bridging social capital provides sources of new ideas, diversity and increased acceptance of the benefit and diversity it can bring to society. Additionally, it has been argued that individually, communities, corporate entities or government bodies alone do not possess the resources needed to promote broad based sustainable development.

Complementarities and partnerships forged within and across these groups of differing power are also necessary to achieve long term sustainable development (Granovetter, 1983; Manderson, 2005; Woolcock and Narayan, 2006). Consequently, 'linking' ties- or those that cross boundaries of power, being vertical relationships with sources of influence or authority-are now understood to be a further requirement in the mix of social capital needed to effectively engage communities and industries in developing their own sustainability. The community as a whole will benefit by the cooperation of all its part, while the individual will find in his

associations the advantages of the help, the sympathy, and the fellowship of his neighbours (Hanifan, 1916). The concept of social capital highlights the value of social relations and the role of cooperation and confidence to get collective or economic results; it is the fruit of social relations, and consists of the expectative benefits derived from the preferential treatment and cooperation between individuals and groups.

There are two sub-sources of social capital, these are consummatory, or a behaviour that is made up of actions that fulfill a basis of doing what is inherent, and instrumental, or behaviour that is taught through ones surroundings over time. The examples of consummatory social capital are value interjection and solidarity. Value interjection pertains to a person or community that fulfills obligations such as paying bills on time, philanthropy, and following the rules of society. People that live their life this way feel that these are norms of society and are able to live their lives free of worry for their credit, children and receive charity if needed. Coleman (1994) goes on to say that when people live in this way and benefit from this type of social capital, individuals in the society are able to be rest assured that their belongings and family will be safe.

The second form of consummatory social capital dates back to the writings of Karl Marx (1947), who wrote about solidarity. The main focus of Marx was the working class of the Industrial Revolution. Marx (1947) analyzed that these workers banded together and worked together in order to support each other for the benefit of the group. This banding together was an adaptation to the immediate time as opposed to a trait that was installed in them throughout their youth. Coleman (1994) states that this type of social capital is the type that brings individuals to stand up for what they believe in, and even die for it, in the face of adversity.

The second of these two other two other sub-sources of social capital is that of instrumental social capital. The basis of the category of social capital is that an individual who donates his or her resources not because he or she is seeking direct repayment from the recipient, but because they are part of the same social structure. By his or her donation, the individual might not see a direct replacement, but, most commonly, they will be held by the society in greater honour. The donor is not freely giving up his resources to be directly repaid by the recipient, but as stated above, is for the honour of the community. With this in mind, the recipient might not know the benefactor personally, but he or she is a member of the same social group.

Fukuyama, (1995), points out that there is not an agreed definition of social capital, so he explains it as “shared norms or values that promote social cooperation, instantiated in actual

social relationships”. He further argues that social capital is a necessary precondition for successful development, but a strong rule of law and basic political institutions are necessary to build social. He believes in a strong democracy and strong economic growth. Familism is a major problem of trust because it fosters a two-tiered moral system, in which a person must favour the opinions of family members. Fukuyama (1995) believes that bridging social capital is essential for a strong capital because a broader radius of trust will enable connections across borders of all sorts and serve as a basis for organizations. Through the social capital concept researchers have tried to propose a synthesis between the value contained in the communitarian approaches and individualism professed by the ‘rational choice theory’.

Social capital can only be generated collectively thanks to the presence of communities and social networks, but individuals and groups can use it at the same time. Individuals can exploit social capital of their networks to achieve private objectives and groups can use it to enforce a certain set of norms or behaviours. In this sense, social capital is generated collectively but it can also be used individually, bridging the dichotomized approach ‘communitarianism’ versus ‘individualism’.

According to the World Bank, (2004), social capital is a useful organizing idea; they argued that increasing evidence shows that social capital cohesion is critical for societies to prosper economically and for development to be sustainable. The central thesis of social capital theory is that ‘relationship matter’. The central idea is that ‘social networks are a valuable assets’. Interaction enables people to build communities, to commit themselves to each other, and knit the social fabric. A sense of belonging and the concrete experience of social networks (and the relationships of trust and tolerance that can be involved) can, it is agreed, bring great benefits to people and the society. Sustainable Economic Development is a global concern and has been on the political agenda since 1992 (Goossens, 2008).

To deal with the challenges of our growing economy and our changing environment, the EU has developed a sustainable development strategy covering economic, social, environmental and financial aspects.

The term was used by the Brundtland commission (1997) which coined what has become the most often quoted definition of sustainable development as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs”. It contains within it two key concepts: the concepts of ‘needs’, in particular the essential

needs of the world's poor to which overriding priority should be given; and the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs.

In terms of economic sustainability, information, integration, and participation are clearly identified as key building blocks to help countries achieve development that recognizes these interdependent pillars. It emphasizes that in sustainable development everyone is a user and provider of information. It stresses the need to change from old sector-centered ways of doing business to new approaches that involve cross-sectoral coordination and the integration of environmental and social concerns into all development processes. Furthermore, emphasizes is that broad public participation in decision making is fundamental prerequisite for achieving sustainable development.

The sustainable development debate is based on the assumption that societies need to manage three types of capital (economic, social, and natural), which may be non-substitutable and whose consumption might be irreversible. Daly (1991), for example, points to the fact that national capital can not necessarily be substituted by economic capital. While, it is possible that we can find ways to replace some natural resources, it is much more unlikely that they will ever be able to replace ecosystem services, such as the protection provided by the ozone layer, or the climate stabilizing function of the Amazonian forest. In fact, natural capital, social capital and economic capital are often complementarities. Another problem of natural and social deterioration lies in their partial irreversibility. The loss in biodiversity, for example, is often definite. The same can be true for cultural diversity. For example with globalization advancing quickly, the number of indigenous language is dropping at alarming rates. Moreover, the depletion of natural and social capital may have nonlinear consequences. Consumption of natural and social capital may have no observable impact until a certain threshold is reached.

Social capital therefore, in relation to sustainable economic development could be refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions, increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social networks can increase productivity by reducing the costs of doing business, it facilitates coordination and cooperation.

Narayan and Pritchett (1997) describe five mechanisms for how social capital affects outcomes. They are: improve society's ability to monitor the performance of government either

because government officials are more embedded in the social network or because monitoring the public provision of services is a public good; increase possibilities for co-operative action in solving problems with a local common property element; facilitate the diffusion of innovations by increasing inter-linkages among individuals; reduce information imperfections and expand the range of enforcement mechanisms, thereby increasing transactions in output, credit, land and labour markets and increase informal insurance (or informal safety nets) between households, thereby allowing households to pursue higher returns, but more risky activities and production technique.

Collier (1998) differentiate between government social capital (e.g. enforceability of societal contracts, rule of law, and the extent of civil liberties) and civil social capital (e.g. common values, shared traditions, norms, informal networks and associational membership). In societies where government social capital is limited, a large proportion of contracts may depend on civil social capital and trust. Ross (1999) opines that individuals invoke networks that involve informal, diffuse social co-operation to compensate for formal organization failure.

Social capital: A tool for effective sustainable economic development in Nigeria

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Broader concept includes also social aspects of development- poverty reduction, better education and health, more equal income distribution. In the long run, economic development should be sustainable, which means that to day's developments could not compromise the capacity of future generations to satisfy their needs. Traditional determinants of economic growth and development include physical and natural capital, technology and also human capital. However, the differences in the speed of economic development among countries with similar factor endowments and production technologies have called for introduction of new factors of economic development in the last decade of the 20th century. Since earlier theories did not take into account the relational and structural aspect of economic transactions, economists have recently focused on the contribution of social capital to economic growth and development.

Social capital refers to the trust, civic norm and networks that enable collective action and improve market performance by reducing transaction costs. There is a complete relationship

between micro-and macro-level social capitals. Formal institutions can be sustainable for –as well as causes of interpersonal trust and civic cooperation. Therefore, if we want to achieve better development outcomes by using social factors of development more effectively, we have to focus on these (institutional or macro-level) aspects of social capital which are easier (or at least possible) to influence.

Economic development is the most important goal of almost all economies-not so much as an end itself, but rather as a means of achieving the increases, and welfare. The latter is realized if the wealth of a nation increases, and that, in turn, is usually triggered by economic growth. The wealth of nations is usually measured by GDP per capital, adjusted for purchasing power parity (PPP). But this measure is not good enough, if we are attempting to assess and compare the real development levels of different economies. As an alternative, the human development index (HDI) is often used to compare the development levels of different countries. The HDI includes sub-indices of GDP, life expectancy and education, covering therefore also the human (capital) aspect of development. But even this measure remains one-sided, if we want to cover broader understanding of the concept of development. Development refers to the expansion of freedom and choices of individuals and of the society. This process depends not only on durable growth of economic indices, but also on health as well as other social and cultural indices (Sen, 1999).

According to the definition of the commission on sustainable development, the economic development of a country is sustainable if it fulfills the present needs of the society, but does not diminish the future generations' opportunities to fulfill needs (WCED, 1987). Alternative approaches suggest that development is sustainable if the society's welfare is not decreasing over time and the people's choices persist or expand.

Sustainable economic development and economic growth as narrow development objectives are closely related, and without growth there would be no development. According to the convergence theory, developing countries like Nigeria should have higher growth rates compared to developed countries in order to catch up the latter. Nevertheless, the results of empirical investigations do not prove always this logic of globalization processes. On the other hand, if economic growth is the most important goal of the society, social aspects of development remain inevitably on the background.

Social and institutional resources are important for ensuring the economic growth and sustainability of the development process. This issue was lastly raised in the 1990s in the context of

the conditional convergence theory- it was acknowledged that there are various structural impediments to growth and development, like incomplete property rights, transaction costs, ineffective government policies, income inequality, weak legal and business institutions, capital market imperfections and cultural differences (Yeager, 1999). Most of these development obstacles represent (or are the result of) the lack of social capital.

The relations between social capital and economic development are complicated, partly because of the vagueness and complexity of the first concept. There are different approaches to defining, measuring and applying the concept. In general, social capital includes networks together with shared norms, values and understanding that facilitate co-operation within or among groups (OECD, 2001). Social capital formation and effects could be analyzed at different levels: micro-level (interpersonal trust and informal relations between individuals), and macro-level (regional, national, international networks and institutions). Most of the empirical work at the micro-level has proved that both trust and civic cooperation are associated with stronger economic performance (Putnam, 1993, Fukuyama, 1995, Helliwell and Putnam, 1995, Knack and Keefer 1997, Hjerppe, 2000, La porta et al, 1997), while, the effects of associational activity are more ambiguous.

The positive effects of a group membership appear mainly at the regional level (Putnam, 1993, Beugelsdijk and Schaik, 2005), while cross-country analyzes usually do not show any correlation between participation and economic performance (Helliwell, 1996, Knack and Keefer, 1997). Raiser et al (2001) have found that unlike in market economies, generalized trust in transition countries is not positively related to growth, while, participation in civic organizations shows a positive correlation. Also, participation is directly related to life satisfaction at individual level (Arts and Halman, 2004). It has been argued that social capital complements the market in its allocative and distinctive functions, thus helping to reduce transaction costs. According to Putnam (2000), the social networks generated through participation in local associations, voluntary organizations and groups open up channels for the flow of philanthropy and altruism, which in turn, foster norms of individual and general reciprocity. This way, social capital facilitates economic exchange by reducing transaction cost as fewer resources are wasted for formal contracts and monitoring. Besides lower transaction costs, social capital also reduces information costs and risk, and helps to avoid moral hazard and adverse selection (Meier, 2002). Trust and norms can provide an implicit understanding that

discourages opportunistic behaviour, effectively filling the gaps in incomplete contracts and thereby supporting valuable specialized investment (Lyon, 2005). On the other hand, the efficiency of markets itself may undermine the exercise of social networks in the long run. If the path of development is supported by solid court system and contract enforcement, the large anonymous markets can be more efficient than informal networks, with gains for all participating economic agents (Groovert, 1998).

Macro-level social capital refers to the governmental institutions that influence people's ability to cooperate for mutual benefit (Knack, 1999). Governmental social capital embodies the rule of law, contract enforcement, and the absence of corruption, transparency in decision-making, an efficient administrative system, a reliable legal system in the post-communist countries of Central and Eastern Europe. In broader context, the effectiveness of government performance depends on social cohesion, which in turn has its roots in ethno-linguistic fractionalization of the society and unequal income distribution (Rupasingha, 2002).

Several studies have focused on ethnic divisions and inequality as sources of slower growth through their impacts on trust, social cohesion, and economic policy making. Most of these studies posit macro-political channels by which polarization worsens economic performance. Knack (1999), Alesina and Perotti (1996), for example, have found that income inequality as an instrument for political instability lowers investment rates and therefore also economic growth. The work of Rodrick (1998) and Easterly (1999) has shown that economic growth in general, and the ability to manage shocks in particular, is the twin product of coherent public institutions and societies' ability to generate the so-called "middle-class consensus"; the later one defined as a higher share of income for the middle class and a low degree of ethnic polarization. Knack (1999) has found a positive correlation between income equality and trust at the cross-country level. He has also indicated that inequality has strong direct effects on government performance (Knack, 2002) and economic growth (Knack and Keefer, 1997).

On the other hand, the formation of social capital itself is related to distribution of wealth. If income distribution is unfairly unequal, some people will be marginalized and driven away from the society's life, which results in decreasing social cohesion. Ritzier, Easterly and Woolcook, (2000) have also argued that key development outcomes are more likely to be associated with countries that are both socially cohesion and is essential for generating the trust

needed to implement reforms, citizens have to trust the short-term losses that inevitably arise from reform and will be more than offset by long-term gains.

Finally, there is evidence that polarization together with formal institutions influence growth rates in part through their impact on trust. Zak and Knack (1998) have demonstrated that income and land inequality, discrimination and corruption are associated with significantly lower growth rates, but the connection of these variables to growth weakens when trust is taken into account.

Conceptual frame work

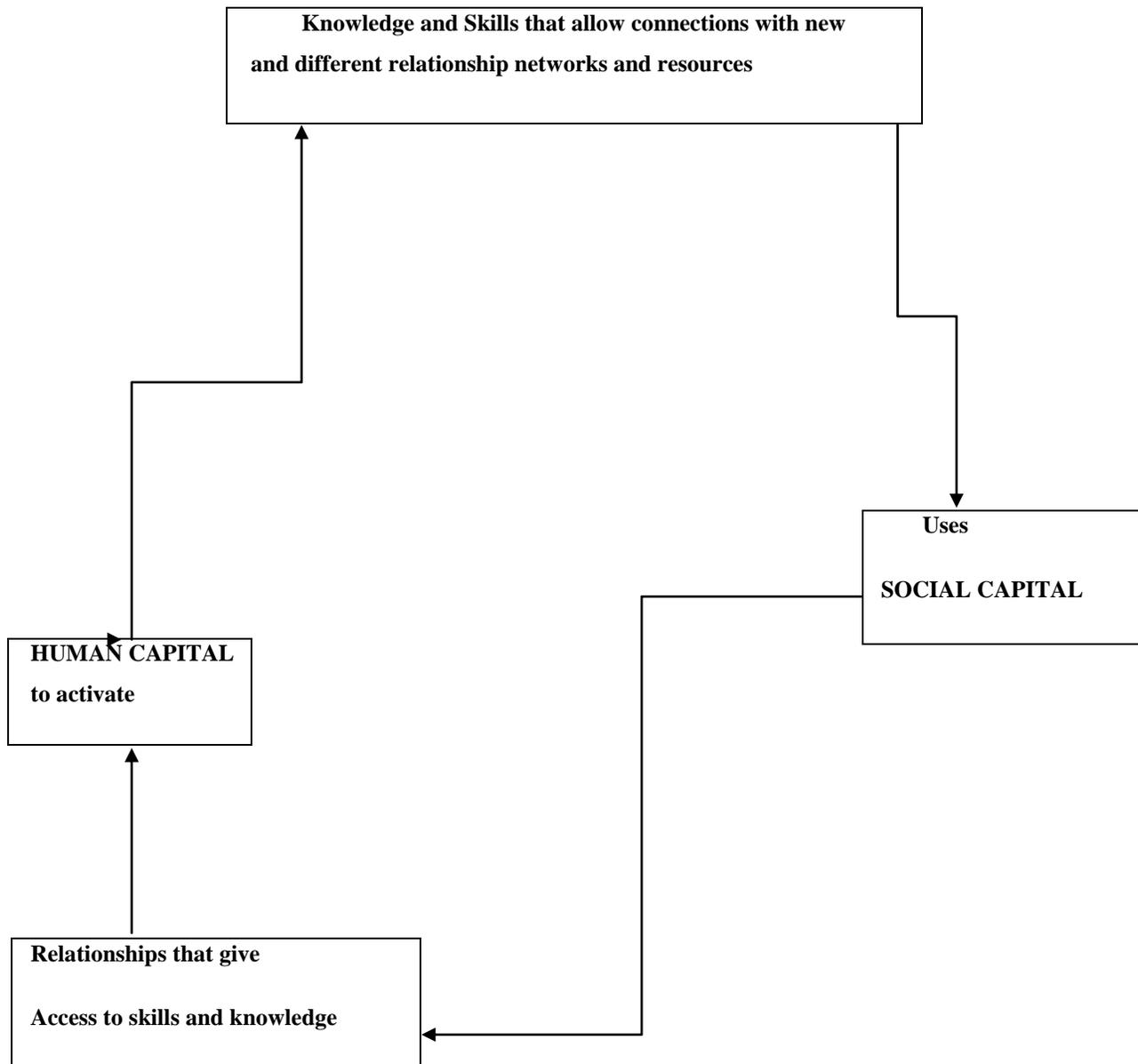


Figure 1: Interaction of Human and Social Capital
Source: Brooks (2008)

A community's human capital is comprised of the depth and diversity of skills existing in a community. To be able to use those skills however, we need social networks to connect us with those who need our skills, or government representations to lead us through the bureaucracy.

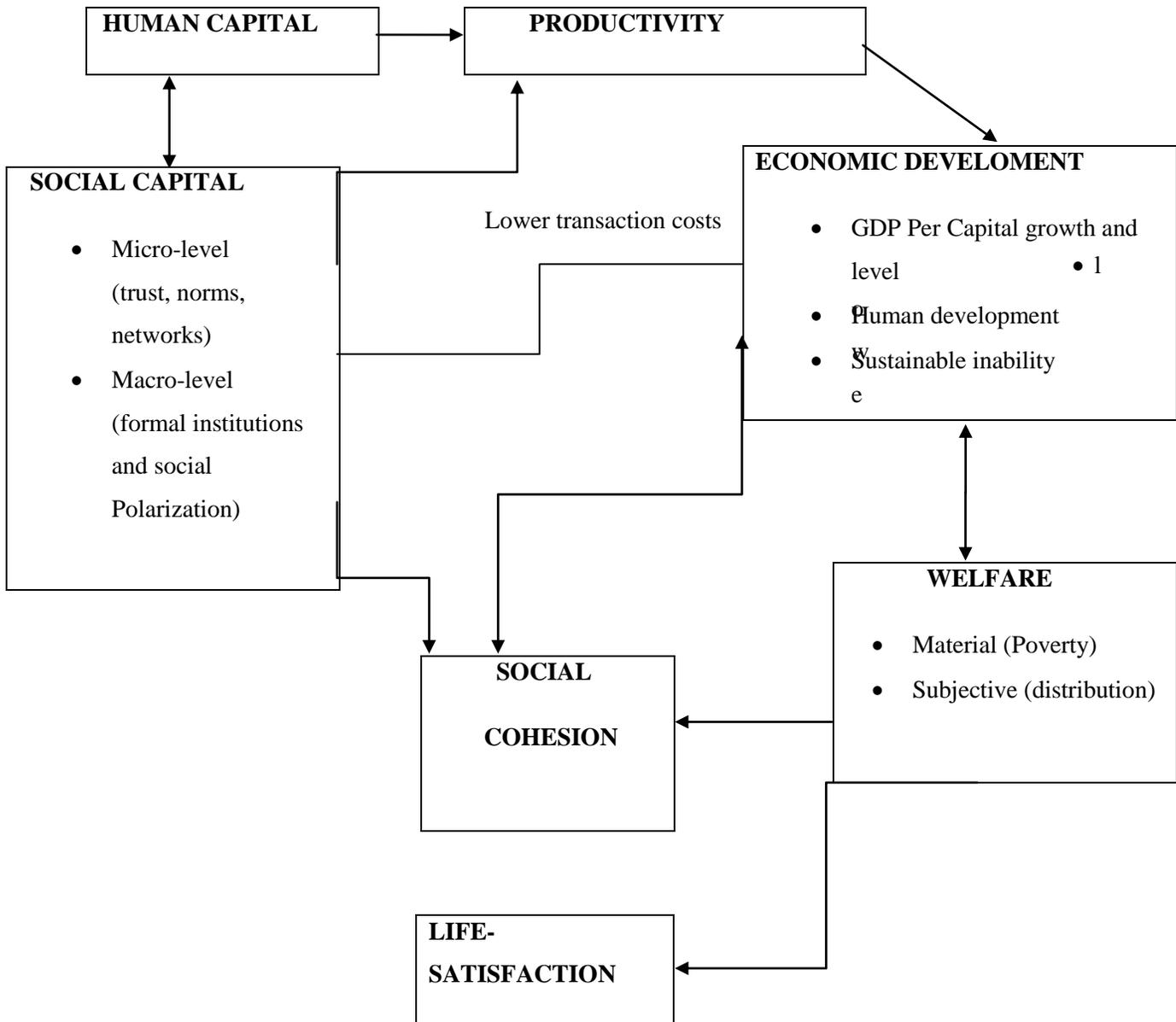


Figure 2: Social aspects and factors of economic development

Source: HeljeKaldaru and Eve parts (2005)

The figure above shows importance, effects and interrelationships of social or “soft” determinants of economic growth and development, human and social redistribution as well as social cohesion.

Conclusion

To conclude it is worth highlighting the idea of looking at social capital in firms and organizations. A number of those concerned with organizational development, like Cohen and Winn (2007), have become increasingly suspicious of the ‘people, processes, technology’ ceaselessly intoned as a summary of the sources of organizational effectiveness. There are, of course, been a significant embracing of the notion of human capital- but those writing about it rarely approach the social nature of organizations, and often fall as a prey to the tendency to draw upon theories and metaphors that derive financial and physical notions of capital. The argument of those concerned with social capital is that, when harnessed, it generates economic returns. More particularly, the benefits claimed include:

Better knowledge sharing, due to established trust relationships, common frames of reference, and shared goals.

Lower transaction costs, due to a high level of trust and a cooperative spirit (both within the organization and between the organization and its customers and partners).

Lower turnover rates, reducing severance costs and hiring and training expenses, avoid discontinuities associated with frequent personnel changes and maintaining valuable organizational knowledge; Greater coherence of action due to organizational stability and shared understanding (Cohen and Winn, 2007).

Finally, the concept of economic development and its factors has changed over time. As understood today, economic growth is no longer the only development objective; members of the society must also be guaranteed basic values like freedom, equality and security for higher level of welfare. These values are often contradictory in their substance and cannot be maximized simultaneously. This concept involves also social aspects of development, as economists have recently focused on the contribution of social capital to economic growth and development (Helje and Eve, 2005). At the macroeconomic level, this is seen primarily through the ways social capital improves the functioning of markets. At the macroeconomic level, institutions, legal frameworks and the government’s role in the organization of production are seen as affecting macro-economic performance. Another important aspect of the macro-level social capital is related to income distribution and social cohesion (Helje and Eve, 2005).

In the political sphere, this implies that if the goal is something more than simply a higher economic growth rate, policies leading to higher productivity should be complemented by

efforts to improve the quality of governance and to keep the social cohesion of the society. Besides direct positive effects on the country's credibility and individual level life satisfaction, short comings in these aspects could also hinder long-run growth prospects.

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