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Theory to Practice: Policy Recommendations for Fostering Economic Development through Social Capital

Abstract: *Proponents of social capital theory have long argued not only that it is in the best interest of civic life to build social capital but also that social capital is vital for the economic health of communities. This has been confirmed by recent research showing that social capital, especially in its bridging form, is positively associated with job creation at the metropolitan statistical area level. At the same time, social capital is often viewed as something either inherent or absent within a community. This article takes on that assumption by presenting a policy-based approach to developing social capital. It provides two theoretical explanations for how social capital affects economic development and identifies four lessons for economic development practitioners to use to enhance social capital. These research-based recommendations for economic development practitioners and policy makers seek to improve the social capital and, consequently, the economic development of their community.*

Evidence for Practice

- Practitioners should begin economic development activities by assessing their community's current stock of social capital using one of many techniques appropriate for their planned intervention.
- Community stakeholders can be intentional about building relationships for economic development.
- Practitioners need to expand the range and type of organizations involved in economic development planning.
- Information flow can be increased and barriers reduced through social capital interventions.

Proponents of social capital theory have long argued not only that it is in the best interest of civic life to build social capital but also that social capital is vital for the economic health of communities. This has been confirmed by recent research showing that social capital, especially in its bridging form, is positively associated with job creation at the metropolitan statistical area (MSA) level (Engbers, Rubin, and Aubuchon 2016). At the same time, social capital is often viewed as something either inherent or absent within a community (Fukuyama 1995). This article takes on that assumption by presenting a policy-based approach to developing social capital. It provides a series of research-based recommendations for economic development practitioners and policy makers to improve the social capital and, consequently, the economic development of their community. Additionally, it provides a set of policy analysis tools to use in understanding community social capital.

The Current State of Social Capital and Economic Development Research

One of the challenges of exploring the relationship between social capital and economic development is that social capital can be thought of both as a theory (Lin 2002) and as a concept (Ostrom 2000).[1] This exploration of social capital looks at it as a concept and its application in fostering economic development. Social capital is like other forms of capital (e.g., human, physical, natural) in that it is a resource for development, but it differs from other forms of capital in that (1) it diminishes with disuse rather than use and (2) it is unobservable except by proxy and difficult to measure (Ostrom 2000).

Thus, one of the most challenging parts of using social capital to foster economic development is reaching agreement on the meaning of social capital. A number of dominant definitions have been advanced:

- Social capital as "the information, trust, and norms of reciprocity inherent in one's social networks" (Woolcock 1998, 153)
- Social capital as the "connections among individuals' social networks and the norms of reciprocity and trustworthiness that arise from them" (Putnam 2000, 19)
- Social capital as the interpersonal resources individuals can access through networks of both strong and weak social relationships (Beaudoin 2009; Steffensmeier and Ulmer 2006)

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These definitions share two common attributes. First, these definitions entail relationships. These relationships can be formal, such as spouse or employee, or informal, such as neighbor or friend. Consequently, much of the literature on networks and interpersonal relationships is relevant to this discussion of social capital and economic development. Second, the focus of social capital is the production of personal or social value. This latter point is what distinguishes social capital from much of the psychological literature on relationships. Social capital is uniquely focused on the "capital" element of social relationships. Thus, like financial, physical, or human capital, social capital is seen as a resource to be employed in economic production.

Social capital as a concept has been used in a wide range of public administration research. This ranges from Compton and Meier's (2016) use of an index of survey items including trust, PTA involvement, and self-reported civic participation to demonstrate a relationship between social capital and diversity management practices in public schools, to the use of social network analysis to explore the management of effective forest planning (Paletto, Hamunen, and De Meo 2015). It is a powerful tool to foster economic development and overcome collective action problems. For example, Park and Feiock's (2006) empirical analysis demonstrates that four types of social capital (strong institutional frameworks, association networks, regional cooperative structures, and social trust) influence the likelihood of regional partnerships.

A recent review of theory and measurement issues in social capital identifies five primary forms of social capital: (1) generalized and institutional trust, (2) formal membership and participation, (3) altruism, (4) informal interaction, and (5) shared norms (Engbers, Thompson, and Slaper 2016). The majority of economic development research on this topic has focused on issues of trust, activity in political and civic endeavors, and informal interaction among community members. Consequently, the recommendations presented here will focus on these areas, but that does not exclude other opportunities for the use of social capital to enhance economic development.

There is increasing evidence that there is an empirical relationship between social capital and economic development (Engbers, Rubin, and Aubuchon 2016; Helliwell and Putnam 1995; Oh, Lee, and Bush 2014; Rupasingha, Goetz, and Freshwater 2002; Woodhouse 2006). While the ability to quantify the relationship is relatively recent, the theoretical justifications date back to the 1970s (Anderson 1978). However, the real increase in interest in the use of social capital for economic development arose from the publication of Woolcock's theoretical treatment of the topic in 1998.

Woolcock (1998) claimed that there is a strong theoretical justification for believing that communities with significant social capital would benefit in terms of their economic growth. He argued that four types of social capital are influential in fostering economic development. The four types are based on (1) the institutional capacity of government and private actors to work collectively (synergy), (2) the ability of social relationships to help overcome collective action problems (organizational integrity), (3) the use of tight-knit relationships to gain access to scarce economic resources (integration), and (4) the ability to reach outside of one's community to gain new information and resources (linkages).

Since that time, the dominant framework for empirical research has been the distinction between bridging and bonding social capital. Bridging social capital is the concept that defines those elements of a person's social and professional network characterized by a breadth and diversity of social interactions. In other words, bridging social capital reflects an actor's ability to reach out beyond his or her intimate relationships (i.e., family, close friends, direct colleagues) to a broader network of individuals. The quality of bridging social capital is determined by the number and breadth of relationships. While lacking intensity, these relationships serve an important economic purpose by connecting individuals to a network of amenable customers and suppliers for the purpose of economic growth (Kim and Aldrich 2005). Moreover, bridging social capital allows entrepreneurs to build networks for growth and overcome barriers to cooperation (Blair and Carroll 2009). This can be seen in Safford's (2009) study of Allentown, Pennsylvania, and Youngstown, Ohio. Safford suggests that Youngstown was unsuccessful in recovering from the loss of Rust Belt manufacturing in the 1980s because bonding social capital was concentrated among the economic elite. In contrast, Allentown's social capital, which was based on ethnic and religious groupings cut across class and remained after the loss of manufacturing in order to foster a new economic economy.

In contrast to bridging social capital, bonding social capital is based not on the quantity of relationships but on the quality of the relationships. Individuals with high levels of bonding social capital have intense bonds with others with whom they interact. The economic impact of bonding social capital has primarily been hypothesized in terms of trust and reciprocity. When there is a high level of trust, there are decreased economic costs associated with enforcing contractual relationships. This is seen most prominently in the work of transaction cost economists (Williamson 1981). This early work has influenced relational contract theory, which suggests that there are mutual economic benefits to fostering trust among parties (Macaulay 1999). Additionally, when bonds are particularly tight, there is an incentive to practice norms of reciprocity that foster economic benefit (Light, Kwuon, and Zhong 1990).

There has been some promising work on the economic impact of bonding social capital. The earliest studies, stemming from research done in ethnic enclaves, finds that the individuals who are part of tight-knit communities have access to economic and other entrepreneurial resources that would not be available to them through the traditional financial capital system (Light, Kwuon, and Zhong 1990).

In a more recent study, Rupasingha, Goetz, and Freshwater (2002) find the number of civic institutions per 10,000 individuals, their measure of bonding social capital, to be positively and significantly correlated with growth in per capita income. In looking at economic development between 1970 and 1992 in 34 countries, Whiteley (2000) finds that social capital, as measured by levels of trust, has a significant impact on endogenous growth.

However, these conclusions should be interpreted with significant caution. While there is reason to believe that insular communities with high levels of social capital do produce economic returns to insiders, they also increase transaction costs to outsiders. It appears that perhaps one of the most significant moderators of this effect is whether the collective isolation that often leads to the tight bonds is self-imposed, as is often the case in enclaves defined by national origin, or whether the isolation is externally imposed, as is found in economically disenfranchised communities (Marcuse 2005).

In contrast to bonding social capital, the more promising empirical evidence is on the effect of bridging social capital on economic development. Some of the most recent research suggests that bridging social capital has a dramatic impact on economic development. A recent study of the 50 largest municipalities finds that the effect of an MSA's bridging social capital is second only to the number of college graduates in terms of explaining job creation (Engbers, Rubin, and Aubuchon 2016). The authors argue that the loose networks associated with bridging social capital are critical to fostering coalitions among economic actors for the purpose of economic development and for making better use of the resulting information for economic ends.

This finding is reinforced by Engbers, Rubin, and Aubuchon's (2016) results, which show the number of nonprofits but not the volume of volunteering impacts job creation. In other words, volunteering intensively for one organization (a measure of bonding social capital) has no statistical effect on a community's per capita income or job creation. However, when nonprofits are understood as gathering places that bring together diverse constituents, thus creating bridging social capital, a positive effect is found (Engbers, Rubin, and Aubuchon 2016).

These econometric findings are consistent with two past case studies (Safford 2009; Woodhouse 2006). The first compares two Australian cities representing diverse economic outcomes. Woodhouse (2006) evaluates the communities on a wide range of economic indicators and concludes that social capital exerts a positive causal influence on economic outcomes. He considers a wide range of social capital measures and concludes that bonding social capital influences both a community's employment rate and the proportion of residents identified as high income.

Safford's (2009) study of Allentown and Youngstown takes a longer-term approach than Woodhouse (2006) and argues that one can understand why some Rust Belt communities have fared better than others. Specifically, using social network analysis, he finds that Youngstown failed to rebound from economic decline in the 1980s because bonding social capital was concentrated among the economic elite. In contrast, bridging social capital based on ethnic and religious ties cut across economic class in Allentown. This expansive bridging social capital provided the social infrastructure necessary to foster a new economy.

Oh, Lee, and Bush (2014) show that social capital does lead to the creation of intralocal and interlocal economic development partnerships in the form of joint ventures and public/private partnerships and that these enterprises foster economic development. The interesting finding of this study is that it extends the geographic implication of social capital. While Engbers, Rubin, and Aubuchon (2016), Safford (2009), and Woodhouse (2006) demonstrate the importance of social capital within a municipal district, this study finds that the social capital that exists across communities has a spillover effect for those jurisdictions touched by the social network. This effect is most pronounced when governmental and private actors are formally involved in structuring the social capital relationship (Oh, Lee, and Bush 2014).

This is consistent with some of the earliest empirical work on social capital and economic development (Helliwell and Putnam 1995; Putnam, Leonardi, and Nanetti 1993). Drawing from the groundbreaking work of Putnam, Leonardi, and Nanetti (1993), these studies find that strong social capital within a region impacts economic development. Specifically, in comparing the northern and southern regions in Italy, they show that the north is able to establish and maintain higher levels of per capita income because of a greater endowment of social capital. They look at how northern Italy, which has been characterized by a robust civil society fostered by effective regional government, experienced more rapid economic development compared with the south, which has lacked these connections.

The inconsistencies in the relative value of bonding and bridging social capital likely can be attributed to a number of factors. For one, differences in methodology and level of aggregation allow the detection of effects at smaller levels that may be undetectable at larger levels of analysis such as states or metropolitan statistical areas. Second, cultural and regional variations in interpersonal interaction likely moderate the effects of social capital on economic development.

The issue of aggregation is likely to be particularly important given past research that suggests greater difficulty in building and sustaining social capital across physical distance (Glaeser, Laibson, and Sacerdote 2002). That said, the unit of analysis in these past studies is vast. Some studies have found positive effects of economic social capital at the regional level (Oh, Lee, and Bush 2014; Putnam, Leonardi, and Nanetti 1993), while others have identified neighborhood or sublocal effects (Collier 2002; Hanka and Engbers 2017). There is no clear identifiable pattern of the effect of unit of analysis on mediating the social capital-economic development relationship, but jurisdictions do appear to have unique patterns of social capital (Onyx and Bullen 2000). The policy recommendations that follow are designed to be implemented at the subregional level and would have some applicability for metropolitan areas, counties, cities, and towns. That said, one would expect the greatest level of impact in smaller jurisdictions, where groups of individuals are likely to have the most agency in manipulating the policy and economic environment.

Despite the somewhat idiosyncratic relationship between social capital and economic development, there has been a consistent positive finding that social capital does influence economic outcomes. Consequently, policy makers and economic development practitioners should think strategically about how to improve a community's social capital. The recommendations of this article will proceed in three steps. First, it will provide a theoretical framework to understand how social capital influences economic development. Second, it will provide four lessons for increasing the quality of social capital and thus economic development within a community. Third, it will examine the benefits of social capital–based strategies.

Social Capital and Economic Development: A Theoretical Framework

Given the increasing empirical evidence that social capital plays a critical role in regional economic development, social capital can be thought of as an economic development resource. It follows that directly engaging this resource in economic development planning and implementation has great potential for increasing the success of these endeavors. Likewise, ignoring a community's social capital in the economic development planning process can result in unanticipated barriers to economic development projects. Among the potential theoretical explanations for the connection between economic development and social capital are (1) the transaction cost perspective and (2) the economic multiplier perspective. The economic multiplier perspective is discussed in greater detail as the transaction cost perspective has been discussed in length elsewhere (Fussell et al. 2006; Pretty 2003).

Social Capital and Transaction Costs

A common theme of economic development textbooks is the reduction of barriers to development. Such barriers come in numerous forms, including a lack of skilled labor, limited access to capital, citizen opposition, a limited number of major employers, inadequate infrastructure, and bureaucratic inefficiency in government. Social capital has a major role to play in this regard, either directly or indirectly. For example, in a Canadian study, social capital is found to have a greater influence on the likelihood of getting off welfare than any other single factor as a result of the social supports that serve to overcome barriers to poverty (Field 2008). However, very few communities have explicitly engaged social capital as an element of economic development planning or implementation. This lack of attention is likely due to a general lack of understanding as to how social capital enhances or dilutes economic activities.

A major exception to this limited understanding of the mechanisms by which social capital impacts economic development focuses on its role in the reduction of transaction costs (Williamson 1981). Social capital is believed to operate in two ways. As described by Beugelsdijk and Smolders (2003), bonding social capital *enhances* connections either between individuals or between institutions, whereas bridging social capital *increases the number* of connections between individuals and institutions, or connections between organizations and institutions at one level of administration and those at a higher level of administration (e.g., federalism).

For either bonding or bridging social capital, communication or trust are improved, thereby making economic transactions less time-consuming and more efficient. Social capital also reduces potential misunderstandings and bureaucratic obstacles between institutions. Economic transactions in such an environment are therefore less costly, leading to more effective economic development processes and projects.

One might also think about the reduction of transaction costs at the institutional level. Given the fact that economic development transcends political boundaries, many communities have moved over the last decade toward a more regional strategy for economic development (Romanelli and Khessina 2005). The presence of regional social capital facilitates institutional collective action for the purpose of reducing transaction costs (Feiock 2009). This has been confirmed by simulations (Park and Feiock 2006) that demonstrate a reduction in transaction costs between communities resulting from enhanced institutional social capital.

Income and Employment Multipliers and Social Capital

While the reduced transaction cost explanation is quite plausible, it is an aggregate description of how social capital works and ignores a number of other aspects of its effect on economic development. A different perspective on the mechanism by which social capital operates in the economic development context can be developed by focusing on the Keynesian income multiplier as modified for subnational regions. According to Miernyk,

> Keynes pointed out that if a certain amount of income were injected into the economy, consumer spending would rise although by an amount less than the injection of income. The proportion of added income spent by consumers became someone else's "new" income. The latter, in turn, spent some fraction of their additional income, and this procedure continued through several "rounds" of spending. Keynes noted that if the marginal propensity to consume—that is, the difference between two successive levels of consumer spending associated with two successive levels of income—could be measured, the income multiplier could also be estimated. The approximate total addition to national income which would result from a given injection of "new" income would be the multiplier times this income increment. (1965, 42)

This multiplier concept forms the foundation of economic base theory and the income and employment multipliers derived from input–output analysis, as well as impact analysis studies that project the effects of major economic development shocks in regional systems (e.g., military base closings in the United States in the late 1990s) (Frey 1989). These multipliers capture the round-by-round spending and job generation that occur in any economy as income circulates throughout the economic system. As noted previously, an individual's or a firm's propensity to consume versus the propensity to save comes into play in determining the size of this multiplier effect, as does income arising from exports and new businesses in a region and income leakages that accrue from the region's imports that lead to dollar flows to other jurisdictions. The greater the local propensity to consume and the regional level of export activity, and the smaller the degree of imports into the region, the larger the multiplier effect will be. When there are more and stronger connections, as there are in high social capital communities, there is a greater propensity to spend locally and thus magnify the economic impact.

Social capital may contribute to the employment multiplier by acting as an enhancer of information flow among economic development actors. Information is the lifeblood of most economic development agencies and commissions, chambers of commerce, and other business or public-private partnerships whose goal is to increase jobs and income for a region. By bringing together knowledge of development resources in a community (such as land, vacant buildings, access to capital, quality of labor force, availability of incubators) and internal and external firms or investors interested in the community, economic development projects ensue. The information that makes this process work is generated by communication and trust among the actors, which is the very nature of social capital. For example, in Tanzania, social capital has been found to enhance access to government services, facilitate cooperative management of resources, and provide access to credit that impoverished individuals need to gain access to financial institutions (Narayan 1997). Likewise, when corporate executives are more socially integrated into their communities, they are more prone to philanthropic and community involvement (Heying 1997). Thus, the tendency to develop a local orientation magnifies the effect of economic opportunity.

Through both bridging and bonding social capital, the flow of information is enhanced (or reduced) when various parties trust each other and have regular communication channels and opportunities. The greater the degree of trust and communication, the more information will flow in an unimpeded and accurate way. As information about economic development opportunities (and risk) increases, so does the opportunity for additional investment and job generation by institutions and private firms. This will lead to greater economic efficiencies in development investment, with a concomitant increase in the multipliers. For example, a Hong Kong study finds that social capital is a significant mediator connecting trust, repeated transactions, and network ties to firm competitiveness (Wu 2008).

In addition to institutional and firm level impacts, bonding social capital may result in increased information between individuals concerning job opportunities. This increase in interpersonal information flow would also improve the efficiency of the labor market, which would, in turn, enhance the creation of jobs thus leading to an increase in the employment multiplier for the region.

Benefits of Social Capital as an Income and Employment Multiplier Enhancement

From this perspective, social capital can be seen as an instrument for enhancing regional income and employment multipliers. In addition to enhancing information flow concerning development opportunities, there are a number of elements through which social capital may further impact economic development outcomes by interacting with the multiplier effect. The most obvious of these are the following:

- Reducing barriers to development through involvement: citizen opposition, crime, poor infrastructure, bureaucratic red tape and inefficiency, multiple approval points for economic development projects
- Improving the social and business climate as social capital quality-of-life indicators increase
- Improving horizontal and vertical linkages between related firms
- Sharing knowledge necessary to improve innovation and expand markets for both entrepreneurial and established businesses
- Reducing business failure due to the lack of managerial expertise
- Enriching workforce development programs and enhancing the productivity of employees through network facilitated learning
- Boosting the growth of industrial clusters by expanding intraregional and interregional connections
- Improving economically beneficial linkages between neighborhoods, the region, and institutions
- Increasing a region's competitive advantage
- Advancing business attraction, retention, and start-up
- Reducing brain drain with stronger community-based connections

Theory to Practice: Fostering Economic Development through Social Capital

Despite early suppositions that social capital is largely path dependent (Putnam, Leonardi, and Nanetti 1993), more recent research has suggested that communities can improve their social capital (Hooghe and Stolle 2003). Research has demonstrated a wide range of strategies ranging from the use of civic groups (Lyons 2002) to financial and economic strategies (Dowla 2006; Erridge and Greer 2002) to sports (Skinner, Zakus, and Cowell 2008). In one of the most policy-focused proposals for building social capital, Engbers (2015) identifies a number of strategies for increasing community-level social capital, including (1) strategically using corporate actors to boost community civic capacity, (2) investing in public spaces, and (3) stressing good governance initiatives. Each of these strategies boosts social capital in different ways. The first uses economic resources to support institutions that serve as gathering places for the development of social capital. The second uses government funding to facilitate infrastructure such as parks and community centers where social capital can form. The last recognizes that social capital is most likely to develop in those communities where it is going to be most effective. While not directly linked to economic development, this study shows the potential to alter the level of social capital (Engbers 2015).

Charles Conteh's (2013) work on economic development in Canada provides an interesting framework for the development of social capital as part of policy making in multilevel systems of government. As Conteh notes, the role of social capital is consistent with the transition from "management" to "governance" in policy implementation that is documented by Osborne (2010). The implementation of public policies has become dependent on the cooperation of "organized non-state actors in interorganizational, collaborative, or partnership arrangements." He further states that a core competency of public sector leadership in such governance systems is collaborative management, where "authority tends to be dispersed between order of government (local, regional, provincial, national and supranational) as well as across loci and sectors, which include market actors and civil society" (Conteh 2013, 19). Conteh then expands this concept of collaborative management to collaborative governance and makes the link directly to economic development:

> "Collaboration" refers to different agencies committing to work together over more than the short term with the aim of securing benefits delivery or added value that could not have been provided by any single agency acting alone . . . the effectiveness of economic development policy implementation requires that managers make connections across organizations

> and share ideas, resources, and power with state and non-state actors. The present discussion, therefore, views collaborative governance constantly evolving over time and operating within and across layers of government, as well as between the public and the non-government sectors. (35)

Conteh undertakes four case studies in regional economic development to illustrate collaborative governance and the multilevel processes that take place in this context. One implication that emerges from these case studies is that such collaboration, particularly with nongovernmental sectors and civil society organizations, is most critical at the provincial and local levels of government. While Conteh does not use the term "social capital," his focus on civil society as part of the collaborative process is essentially the same.

The recommendations that follow suggest an intentional strategy aimed at fostering social capital *for the purpose of* economic development. Rather than pursuing a *laissez-faire* approach to social capital, it is possible to enhance economic development by reducing transaction costs and enhancing the multiplier effect by fostering the bridging and bonding social capital in communities to reach positive economic outcomes. This implies a set of strategies whereby social capital becomes a factor of production in the community economic development production function.

Lesson One: Start with Assessing Community Social Capital

The first step in utilizing social capital to achieve economic development is to understand the current state of social capital in a community. Using social capital strategically requires understanding the strengths and limitations in a community's social capital to develop appropriate strategies for intervention. Past academic studies of social capital have employed a wide range of techniques to evaluate community social capital, including textual analysis of secondary data, interviews, and institutional counts. Each of these approaches has its own advantages and disadvantages. However, for policy makers, two approaches in particular stand out for assessing social capital because of their ability to make comparative claims and because of their objective character: surveys and social network analysis.

Survey-based approaches to assessing social capital. There have been extensive efforts to use surveys to document community social capital. Among the most robust of these is the work of the Social Capital Community Benchmark Study sponsored by the Saguaro Seminar at Harvard University (Saguaro Seminar 2001). The research is supported by a select number of communities that have invested in collecting data on their community's stock of social capital. The study includes the broadest range of measures of social capital and has been used widely for both scholarly and practical ends. The most recent version of the survey has been distilled down to 24 questions that measure social capital in the form of social trust, political participation, civic leadership and association involvement, charitable activities, faith-based engagement, social interaction, and the diversity of friendships. Two geographically broader surveys for consideration are the Current Population Survey Volunteer and Civic Engagement Supplements. The surveys conducted annually represent a national sample and include a wide range of questions that can be used to measure both bridging and bonding social capital.

We raise these examples of surveys for two reasons. First, for policy makers in some communities, there may already be robust measures of their community's social capital. For major municipalities, the number of observations gleaned from the Current Population Survey is sufficient to draw conclusions about social capital. Likewise, many communities were included in the most recent Social Capital Community Benchmark Study, including two states (Kansas and New Hampshire) and 15 localities. For those communities lucky enough to have been studied, the existing data serve as a basis for planning social capital interventions. However, local planners should be cautious with using Current Population Survey data as sample sizes are insufficient to draw claims about all but most dense counties and municipalities. Suburban cities and other small to moderate-sized communities that are not part of the Social Capital Community Benchmark Study will need to collect their own data.

Second, for those communities for which existing measures of social capital do not exist, past studies represent a repository of social capital measures. Consequently, if policy makers or economic development practitioners are considering developing a survey, they need not start from scratch. A recent review of social capital research provides an encyclopedia of social capital surveys and measures, including those mentioned earlier, from which questions can be drawn (Engbers, Thompson, and Slaper 2016). These surveys are widely available, and the questions can be utilized for local research. Some of the most-used survey questions include the following:

- Generalized trust: Bivariate response to the question, "Do you believe that most people can be trusted or that you can't be too careful?"
- Group membership: Interval measure of the question, "What is the number of groups with which you volunteer?"
- Civic volunteerism: Bivariate response to the question, "Have you worked with other people to fix a problem or improve a condition in your community or elsewhere?"
- Informal interaction: Ordinal response to the question, "How often do you hear from friends and neighbors?"

While this list is by no means exhaustive, it offers examples of questions that get at a wide range of social capital concepts and can be used to take the social capital pulse of a community.

Social network analysis approaches to understanding social capital. An alternative to survey-based approaches to understanding social capital is social network analysis. While survey approaches can provide an aggregate evaluation of a community's social capital, they are ill equipped to examine the specific social capital relationships within a community. In contrast, social network analysis starts with individuals and organizations and examines concretely how different actors are related within a community. While social networks are not the same as social capital in that they do not necessarily have productive value, networks make social capital possible by connecting individuals and thus facilitating productive use.

Social network analysis is a methodological technique that examines relationships among individual or corporate actors. It enables the creation of a visual representation of the interconnectedness of units under investigation. In this way, the method seeks to identify nodes (individuals, groups, or things) and ties (the connection among these nodes). These are then mapped to identify where social capital does or does not exist. Furthermore, it addition to identifying connections, it enables researchers and practitioners to better understand social capital by quantifying, among other things, the centrality, distance, and density in the network. Centrality refers to the importance and influence of an actor in terms of its number of connections. Distance refers to the number of ties needed to connect a particular set of actors. Density reflects the number of connections among actors relative to the number of possible connections (Scott 2012). Each of these measures is useful for economic development professionals seeking to intervene in a community's social capital.

The added benefit for economic development practitioners is that social network analysis is not methodologically complex. It can be learned quickly from an experienced practitioner and is easy to explain to policy makers. Additionally, there are a wide range of software programs, including Graphviz, Inflow, SocNetV, UCINET, and PAJEK, which are quite user friendly. Many programs are also open source or free to use. With some guidance, communities can map their networks to better identify where social capital does or does not exist. There is not an established history of social network analysis use among practitioners, so some collaboration with academic researchers may be beneficial.

Lesson Two: Creating Intentional Connections

Once a community understands its current state of social capital, it proceeds to the next step of how to build and use its social capital. Most social connections happen haphazardly as a result of shared interest, common history, or mutual purpose. Thus, the networks that exist in a community may not be optimal for fostering economic development.

Consider, for example, Safford's (2009) case study of Allentown. He argues for the importance of a linking organization for purposes of economic development. Specifically, he shows how the use of the Boy Scouts of Minsi Trails board of directors served as an important tool of revitalization following the collapse of the Rust Belt because the board was a gathering place for a diverse set of community leaders that cut across traditional social networks. The Boy Scouts were attractive to a wide range of ethnic, class, and geographic groups and thus provided the needed social connections necessary to spur economic recovery.

While the Boy Scouts were an accidental catalyst for economic development, a similar strategy can be pursued intentionally. Consider the example of the Economic Development Forums sponsored by the Economic Development Council of Colorado (EDCC). The EDCC hosts periodic forums across the state for the purposes of idea sharing and relationship building. The forums are intentional about connecting local businesses, government politicians and administrators, nonprofit representatives, community advocates, and educators to improve the communities in which they work. The invitees are intentionally crosscutting to maximize the likelihood that the relationships will lead to new information and an increased number of linkages. In this way, participating citizens reduce the transaction costs associated with gaining resources and problem-solving with regard to their communities' problems.

This is a place where social network analysis can be beneficial to a community. With appropriate social network analysis, communities can identify whether their disparate social networks do or do not overlap and then can create ties for collaboration that cut across traditional boundaries. These crosscutting ties are an important step in economic development. Likewise, they can identify which individual and corporate actors are most central to the economy of a community and either utilize their centrality for economic gain or connect them to other community leaders for a more integrated social capital map.

These connections often occur organically, but the intentionality of bridging connections by policy makers or economic development officials implies a set of strategies whereby social capital becomes a factor of production in the community economic development production function, particularly when the most influential social capital nodes in a community are explicitly identified. This economic effect is primarily through the reduction of transaction costs, but when communities begin to "think local," the effect can be magnified through economic multipliers.

Lesson Three: Expanding the Economic Development Network

In traditional economic theory, perfect information is generally assumed. However, information about economic development opportunities and constraints is often not readily available, particularly at the level of an urban area. The connections that typify social capital in a community can be very powerful for enhancing the flow of information relative to economic development (Field 2008; Gutierrez, Hilborn, and Defeo 2011; Kim and Aldrich 2005; Narayan 1997). For example, many community colleges and cities within the United States provide programs and events designed to enhance the success of emerging entrepreneurs. However, these programs will only be successful if knowledge of these events reaches the targeted audience. Most of these events are advertised in traditional media such as newspapers or brochures. The same is true of many local government development initiatives, including economic and community development planning processes, development project implementation plans, and tax and incentive policy design and implementation. This leaves untapped many of the social capital networks that could effectively distribute this information. While lesson two focused on the intentional connection of community elites, this lesson focuses on greater wholesale involvement and the communication of economic development opportunities and priorities to groups and individuals that may or may not have historically been involved in economic development strategies.

In this way, social capital–based economic development is similar to previous community development initiatives in that it seeks broader involvement and the development of a voice for those who have historically been excluded from the economic development process (Bennett and Giloth 2012). Likewise, it is place based in that the strategies are designed to bring together individuals within a community. However, it differs from traditional place-based strategies in that the intervention does not focus on a geographic area, such as identifying "non-federal resources to invest in the workforce" or targeting "appropriate policies and investments to specific types of neighborhoods" (Bennet and Giloth 2012, 226–29). Rather, the intervention focuses on people and the fostering of relationships that have spillover effects. The density of the relationships reduces costs for all those involved (Gabre-Madhin 2001). Moreover, communities that have greater social integration in ways that transcend class relationships experience greater multiplying effects associated with economic intervention (Noya and Clarence 2009). In this way, broadening the economic development coalition reduces transaction costs and increases the multiplier effects.

Thus, a critical strategy for enhancing the flow of information involves employing local government, nongovernmental organizations, churches, neighborhood associations, business associations, educational institutions, and informal personal networks. These networks can be designed in such a way that takes advantage of the connections between and across these nodes. While this strategy may resemble a citizen participation effort, it transcends that by focusing on the development of social capital and its intentionality in creating connections to achieve economic ends. Direct personal contact by economic development officials and invitation to participate with respect to these organizations is critical to their engagement (Field 2008; Gutierrez, Hilborn, and Defeo 2011; Narayan 1997; Wu 2008). Such efforts include traditional notifications through news media but also using personal contacts, social media, and word of mouth to greatly increase the likelihood of information distribution. This implies that in addition to knowledge of social capital nodes obtained through the survey or network analysis methods identified previously, a stakeholder analysis for the community is carried out whereby both formal and informal leaders are identified, contacted, and engaged (see, e.g., Bryson 2011).

The stakeholder analysis for a community will identify organizations that have the greatest influence and individuals who are key opinion leaders in the community. A concerted effort on the part of civic and economic leaders to personally contact and engage these organizations and individuals is the most cost-effective way of mobilizing social capital for enhancing economic development. Following this stage, economic developers should then employ the respective means suggested by these community leaders to reach their constituents. Once such an analysis is complete and these contacts are made, the efficacy of community and economic development planning and projects can be significantly improved.

Perhaps the most important place that social capital engagement is essential is in the strategic planning processes, where economic and community development goals and objectives are established. Since these processes are intended to incorporate community values, identifying social capital nodes, stakeholders, and power/interest modalities and then arranging for the active and effective participation of such stakeholders, social capital can have a particularly profound effect in the planning process. By bringing the traditional development planning participants (such as local government officials, business leaders, real estate developers, workforce development organizations, and citizen groups) and social capital organizations often excluded from economic planning (e.g., religious organizations, nonprofits, cultural groups, social service agencies, neighborhood associations, and transportation providers) into the planning process at its earliest stages, important insights and concerns are incorporated into the process. Moreover, this engenders trust and open communication across social capital networks. The result is a much more successful planning process with reduced opposition to future development projects. As the case of the 12 Apostles Visitor Center in Victoria, Australia, demonstrates, projects may be likely to fail when stakeholders are not engaged in the planning process (Munro, King, and Polonsky 2006). In addition to the impact of engaging social capital nodes and networks in planning processes, many of the barriers to local economic and community development can be ameliorated through social capital engagement (Hooghe and Stolle 2003; Narayan 1997).

This lesson emphasizes that economic development is owned by the community and not any single agency. By expanding the network, communities can access a better combination of resources, talents, and tools. Moreover, the network remains dynamic and is able to better respond as economic conditions change.

Lesson Four: Reducing Barriers through Social Capital and Information Flow

As has been previously suggested, improved economic development is often linked to a community's ability to overcome barriers. Social capital can play a unique role in this endeavor. In particular, it reduces barriers in four ways: by (1) increasing knowledge about financial capital, (2) reducing citizen opposition, (3) reducing bureaucracy that hinders economic momentum, and (4) enhancing managerial expertise to put resources to more productive ends. Each of these is predicated on the information flow that comes from enhanced social capital. By intentionally focusing on barrier reduction and enhanced information flow, social capital is more likely to produce positive economic ends.

First, one of the key barriers to local economic development is limited access to capital, the cause of which is often a lack of information flow from banking and financial institutions to potential entrepreneurs. Connections between people improve knowledge of such opportunities, as do the connections between entrepreneurs and institutions. In addition, capital-poor regions with development opportunities will also benefit from external connections from local banking and financial institutions to those in other regions and both banks and communities become more aware of these opportunities as a result of the decreasing costs of information.

Engagement of these connections is a particularly critical element of the outreach effort associated with the network and stakeholder-power/interest analysis. By enhancing the distribution of knowledge about community financial resources, potential entrepreneurs will be better informed of start-up funding opportunities and financial establishments of investment opportunities (Kim and Aldrich 2005).

Second, citizen opposition to development projects or plans directly affects the business climate of an area, with consistent opposition leading to a reputation for a community as a "difficult place to do business." A positive business climate, although nebulous and hard to define, is one of the key characteristics that enhance economic development. Communication with mass audiences by planners and establishing trust (one of the most critical elements of social capital) can disarm potential citizen opposition to development projects, particularly when this occurs at the planning stage of an economic development strategy or project. The lack of these social capital elements can readily cause such opposition to materialize. By ensuring that appropriate information is communicated to critical stakeholders (e.g., neighborhood and business associations) and that such stakeholders are invited to participate effectively in development plans and projects, trust is enhanced and the likelihood that projects can move forward with community support is improved. The importance of stakeholder involvement and communication is already well established in the resource management and planning literature (Gutierrez, Hilborn, and Defeo 2011; Pomeroy and Douvere 2008). This can be understood in the economic development context as social capital contributing to a positive business climate that then enhances the economic multiplier effect.

Third, effective and efficient local government is a frequently mentioned element of business climate, and inefficient government can be a major barrier to economic development. Better communication between entrepreneurs and government has often resulted in the creation of one-stop shops that reduce the overhead (that is, the transaction costs) of starting a business, at least with respect to government approvals and permits. Local government can also play a role in leveraging financing for start-ups or providing other incentives (e.g., a business incubator), but these efforts do little good unless the "word gets around." Bridging and bonding social capital are critical to enabling information about such incentives to flow to potential entrepreneurs (Fountain 1998; Kim and Aldrich 2005). This is another area in which identifying appropriate stakeholders and developing communication and participation strategies pays dividends by enhancing the multiplier effect.

Fourth, one of the major points of failure for new small business ventures is the lack of managerial expertise, causing the majority of new businesses to fail within the first year. Social capital can go a long way to overcoming this barrier, and has been a common aspect to programs such as SCORE, in which retired business executives provide free consulting to small business owners to solve management and other problems. Community colleges also provide these services, which are often advertised via meetings of potential entrepreneurs (bridging social capital) or by word of mouth between individuals (bonding social capital). These social capital networks improve the dissemination of knowledge about development opportunities to potential entrepreneurs, thereby increasing the number of new businesses and employment opportunities and reducing the costs associated with gaining expertise. In this way, social capital can help match the short term and intermediate needs of entrepreneurs as their businesses evolve.

Moreover, by explicitly reaching out to these social capital networks that include relevant population groups in the community, underprivileged or underserved individuals, educational institutions, and business associations, the efficacy of these economic development tools can be greatly enhanced. Such an outreach effort targeted at entrepreneurship has a high probability of improving the effectiveness and efficiency of multiplier effects.

An Example of Explicit Social Capital Engagement for Economic Development

An excellent example of a community pursuing a strategy of explicit social capital engagement for economic development, among other goals, is the City of Moncton in New Brunswick, Canada. Beginning in 2005, Moncton's Economic Development Office created an economic development strategic plan to enable the city to take a more active role in working with its economic development challenges. The plan includes fostering public and private associations and other nongovernmental agencies to meet the city's economic development goals. As a result, the city is providing coordinated leadership to enhance cooperation and support from private local economic development organizations, including the Greater Moncton Chamber of Commerce, Downtown Moncton Centre-ville Inc., Moncton Industrial Development, and Enterprise Greater Moncton (Conteh 2013).

In addition to working with these private organizations, Moncton has included specific steps to engage citizen-based organizations in its Strategic Action Plan for 2016–20 (see https://www.moncton.ca/Government/Strategic_Plan_2016-2020.htm). As stated in the plan, "Moving Moncton forward requires a trusted partnership—a social contract between City Council and residents to work together in supporting economic growth." This statement embeds several critical aspects needed to engage social capital, including partnership, trust, and a social contract.

The strategic plan includes a focus on transparency and accountability, diversity of population and culture, local immigration partnership, community engagement, and collaboration with all levels of government. Moreover, Moncton has implemented a Social Inclusion Plan that has resulted in the establishment of critical social capital partnerships with nongovernmental organizations, including Scouts Canada, the Greater Moncton Homelessness Steering Committee, the Petitcodiac Watershed Alliance, the Community Food Centre, and a number of other organizations (see https://www.moncton.ca/Assets/Residents+English/Social+Inclusion/Social+Inclusion+Plan_ENG.pdf).

Moncton's Cultural Plan also recognizes culture as an economic driver that can attract and retain a talented workforce and business investment and includes an emphasis on partnerships, collaborative projects, promotion and communication (see https://www.moncton.ca/Assets/Government+English/Publications+English/Moncton+Cultural+Plan.pdf). In order to implement this plan, the city utilized a cultural mapping exercise to identify 43 organizations that were engaged in cultural activities, with the intention of pursuing strategic partnerships with a number of these organizations.

It is through this process of collaborative governance based on social capital relationships that Moncton has succeeded in achieving many of its critical strategic economic development goals. It now has a thriving economic base and a diverse and talented workforce that have made it the number-one commercial and industrial development hub in Canada's Atlantic provinces (Jones 2017).

Benefits of Social Capital–Based Strategies

In addition to the generalized economic benefits of social capital discussed here, the strategies outlined in the previous section supplement and magnify the effects of other economic development strategies including cluster development, business improvement districts, and workforce development.

One of the most important goals of regional economic development over the past two decades has been the creation and enhancement of regional industry clusters as described by Porter (1998). The essence of these clusters, whether they are regional traded clusters with strong export-oriented activity or nontraded clusters meeting local demand, are the supply chains and other horizontal and vertical linkages that connect these firms in a region. These linkages include goods and services that flow between the member firms in the cluster and communication and sharing of knowledge between employees in different firms, both of which are enhanced by social capital. Communication between the firms occurs partly through the establishment of personal and institutional relationships to create a business-to-business environment. Perhaps more critical with respect to social capital is the creation of social networks for the sharing of knowledge between employees of different firms. This is typical of the IT environment in Silicon Valley in California or the Research Triangle in North Carolina and typifies most large regional clusters. Such social networks allow common problem-solving across an industry and sharing of key knowledge elements while still maintaining or even enhancing the competitive environment between firms producing similar products. Economic and community development practitioners can improve the potential for the development and growth of industry clusters by helping to enable the creation of industry associations.

Inadequate infrastructure can also be addressed partly through social capital mechanisms. One such common mechanism is the creation of business improvement districts, which are voluntary associations of neighborhood businesses to achieve better infrastructure and delivery of local government services. Business improvement districts feed off of social capital in that their existence is predicated on the voluntary relationships among business owners. Moreover, enterprise zones often serve similar purposes with respect to enhancing infrastructure and service delivery while adding a number of other job generation elements, including the goal of enhancing the number and quality of employers in depressed areas of cities. While these are generally creatures of state and local government, they could not achieve their mission without both bridging and bonding social capital. Once again, it is necessary to identify critical social capital nodes and stakeholders and actively solicit their involvement to generate these zones and districts, which have proven track records in economic development when created in accordance with development theory.

Workforce development efforts benefit from both bridging and bonding social capital. Individual skills that are acquired through workforce development activities are shared via social networks and individual relationships. These take the form of unions and trade organizations in a collective sense and apprenticeships and informal training at the individual level. All of these activities require communication and trust between individuals and institutions, both horizontally and vertically. This is another area in which development practitioners, local governments, and educational institutions such as community colleges can work to enhance these elements of social capital by improving communication and trust.

Each of these enhances the macroeconomic income and job multiplier effects within a regional economy, increasing the positive economic impact of increased exports and homegrown businesses. On the other hand, social capital can also work in a countervailing manner to derail economic development activities, either through its absence in a community or through divisive processes that increase opposition to projects or create a negative business climate, thus reducing multiplier effects. Therefore, it is critical to a successful economic and community development process to explicitly engage social capital networks and nodes in development planning and projects along the lines identified in this section.

Conclusion

There is a long history documenting the societal benefits of social capital. While not a panacea, one should see social capital as an important tool in maximizing economic development as it is a low cost strategy for multiplying economic impacts. This paper has proposed a theoretical framework for understanding social capital's economic effect, namely transaction costs reduction and the Keynesian multiplier. Additionally, it presents a series of strategies for understanding and increasing social capital. Hopefully, by analyzing and developing community social capital using the tools advanced in this paper, economic development practitioners can move their community forward.

Note

1 To focus on the policy implications of recent social capital/economic development, the authors have truncated the literature review. However, the literature review builds on several recent literature reviews that were comprehensive on the topic (e.g., Engbers, Thompson, and Slaper 2017; Kwon and Adler 2014; Thompson and Slaper 2016). These were supplemented with keyword searchers of major academic databases for "social capital" along with "economic," "development," "revitalization," "income," and "jobs."

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