

Social Capital

By John P. Blair and Michael C. Carroll

A LOCAL DEVELOPMENT TOOL

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*The Power of
Knowledge and Leadership*

social capital

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Local economic development practitioners recognize that social relationships and networks can shape local economies. Yet academic research is only starting to incorporate social resources into economic development practice. The emerging concept of social capital promises to be a useful tool towards this end. An appreciation of how social capital affects local economies should be part of every practitioner's tool kit.

The article first describes the concept of social capital. The second section shows how social capital can strengthen various economic development strategies at the local level. The final section discusses the practical issues of building, managing, and using social capital.

AN EMERGING TOOL

The term "social capital" is newly coined, but most economic development practitioners will grasp the concept intuitively because they regularly use it. According to the popular book, *Bowling Alone*:

"Social capital ... refers to features of social organization, such as trust, norms and networks, that can improve efficiency of society by facilitating coordinated actions" (Putnam, 1993).

Since economic development processes largely involve coordinating individuals and groups towards tasks like attracting a new business and improving the business environment, it is clear that assimilating an understanding of social capital into local development concepts can be a vital part of the economic developer's tool kit.

Both bonding and bridging social capital have been identified. Bonding social capital unites individuals within a group or network. Bridging capital is reflected in the ability of groups to form coalitions. Social capital also can help overcome vertical barriers that make it difficult for individuals and groups with unequal social status or power to work together. For instance, a small business person



The Appalachian Center for Economic Networks is an economic development organization serving the Appalachian region of southeastern Ohio. While sharing space in an incubator, ACEnet businesses have developed social capital that facilitates joint marketing and production efforts, provides access to a common labor pool, and assists in distribution activities.

may be able to talk with a CEO of a large corporation if they are both in a social capital rich network such as a community improvement organization.

How Social Capital Works

Social capital helps local economies in three important ways. First, it reduces the costs of market transactions by lowering negotiating and monitoring costs. It is more convenient to work with someone you trust rather than dealing with someone you don't know. The less standardized the job, the more useful social capital may be. Second, social capital may replace money exchange when

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individuals believe that one favor will be returned at some unspecified time. Third, social capital can mitigate the negative economic effects of non-market transactions. For example, pollution, excessive noise, and other offensive behaviors occur because the perpetrators (polluters) don't know and/or don't care about the victims. Such attitudes are less likely in environments where individuals are part of dense networks bound by shared values, trust, and reciprocity.

Measuring Social Capital

The emerging academic interest in social capital theory has led to attempts to quantify it at the local level. Researchers have administered questionnaires that identify attitudes regarding trust, reciprocity, community norms, civic engagement, and so forth. Answers were indicators of social capital organizations with high levels of interaction and trust among members and where



Officials at Good Samaritan Hospital in Dayton, OH, recognized that a social capital-led development strategy could contribute to neighborhood stability.

respondents feel they are an important part of the group, indicating high levels of social capital. While the terminologies used in the various studies differ slightly, it is clear that the same closely related set of attitudes is being identified. These attempts at empirical measurement represent credible "first steps" towards making a rather fuzzy concept more concrete.

Other researchers have developed computer programs to "map" social networks by showing how various individuals interact. For instance, a survey could determine where members of the local merchants association receive their information. From these graphical representations and related statistics, practitioners can gather a better picture of the composition of groups and the relationships among groups. This information will help insure that the right people are at the table.

Effective economic developers normally think in social capital terms even if they do not measure it in a textbook fashion or use social capital language. They think in terms of organizational cohesion, influential

persons, and linkages among organizations when attempting to develop and implement economic development strategies.

Academic Acceptance of Social Capital

Economic development practitioners are building the concept into their plans and actions. However, social capital has been accepted grudgingly if at all by many mainstream, academic economists because social capital does not fit traditional economic ways of thinking in three ways.

First, the effectiveness of social capital depends upon the context in which it is employed. A group's ability to mobilize social capital may depend upon which other groups bring the issue to the table, how the issue is presented, what other issues face the community at the time, and so forth. Also, it is difficult to predict the amount of social capital needed to achieve an end. In some circumstances, using less than a particular measure of social capital may be ineffective and using more than that measure may be redundant. As a result of contextual dependency, social capital does not lend itself to traditional mathematical modeling techniques which are stock in trade for many economists. Efforts to reduce social capital to a variable in an equation come at the cost of ignoring the qualitative dimensions that give power to the idea.

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Another reason for resistance to social capital is that resources are usually viewed primarily as a means to other ends. Social capital not only enhances productivity, but also improves the quality of life. Dealing with people who share social capital is integral to developing a sense of community and valued in and of itself. Economic and community development practitioners are aware of the value placed on the sense of community. The value of the direct benefits from social networks (values as a consumption good) may outweigh its benefits as a means.

A third distinguishing feature of social capital is that once created, it cannot easily be transferred or exchanged through market processes. For instance, if people have built trust or good will within a group, they cannot sell it to someone, even if that person is already well integrated into the group.

APPLICATIONS OF SOCIAL CAPITAL IN LOCAL DEVELOPMENT

Economic development strategies can be enhanced when practitioners use social capital as part of policy implementation. Practical applications can be facilitated by an appreciation of how social capital contributes to specific development strategies. This section describes some popular economic development approaches and shows how social capital can be useful to economic developers.

Innovation

Innovation strategies include entrepreneurial development as well as efforts that focus on large businesses such as cluster based programs. Sometimes innovation studies focus on technologies but better ways to treat customers, employee management practices, market development, and so forth are also important. Serendipitous as well as calculated mergers of ideas and practices from a variety of fields combine to create innovations. These connections are more likely to be discovered when social networks include many, diverse interactions among members. Accordingly, productive social networks are an important part of local innovation (Lorenzen, 2007).

Local innovation depends on the effectiveness of bridging social capital because many innovations are based on cross fertilization of ideas across technologies and industries. Knowledge transfers can be improved when individuals trust one another and are willing to share information. The CONCISE project (The Institute of Health and Social Science Research, 2003) found that institutions are linked largely by individuals who have first established personal relationships through an existing network. Intra-firm employee interactions are affected by social capital built in non work relationships.

With the advent of rapid communications, can the same level of information exchange needed for innovation be achieved electronically? If so, the importance of *localized* social capital in the innovation process would be diminished. However, a recent series of surveys found that while modern communication makes face-to-face contact less important than in the past, it will continue to be significant (GEM City Public Services, 2007).

Personal contacts build trust more quickly than mail, e-mail, or exchanges through third parties. It can be difficult for most people to trust someone they have never met. Also, people evaluate information based on voice tone and body language.

A second reason for believing that social capital will continue to be localized is that contact with persons in non-work environment such as clubs, churches, and civic events builds credibility. Denser local networks lead to a greater number and diversity of conversations that can generate innovations. Business relationships can be reinforced by strong civic networks since trust can be developed by observing how people relate and regard each other even in non business settings.

The ACEnet example shown in the sidebar illustrates the use of social capital in small business innovation and development.

Quality of Life Strategies

Creating a high quality of life can be a goal in itself, but it is also part of other economic development strategies. Improved quality of life can help attract workers, particularly young mobile workers and is critical to resort and retirement-based development strategies. Quality of life also plays a significant role in attracting businesses.

An area's quality of life probably exerts a stronger influence towards maintaining existing populations than attracting new residents. The nature of an area's social capital may not be evident to someone considering immigration. For many non residents, it can only be

SOCIAL CAPITAL AND RURAL DEVELOPMENT: ACENET

The Appalachian Center for Economic Networks is an economic development organization that serves the Appalachian region of southeastern Ohio. It operates an incubator and performs other traditional business development functions such as assisting in the search for venture capital, management training, and writing business plans.

It primarily focuses on small business development in high value added agriculture, arts, and crafts. These are activities that often rely on social networks. However, the isolation created by the mountain topology, the rural environment, and the nature of many small businesses create barriers to network formation. ACEnet has consciously sought to create social capital by building networks among its members. Accordingly, ACEnet has helped create:

- Partnerships for jointly acquiring supplies;
- Cooperative marketing ventures for arts and high value wood products;
- Associations among producers of art, crafts, and some food products with retailers and local restaurants; and
- Clearinghouses and idea exchange sessions.

Most of the organizations created through ACEnet become self perpetuating, but informal. New ACEnet members are brought into these networks based on interests, needs, and personality fits rather than official roles and membership cards.

The development of social capital can be assisted by computer technology. ACEnet has used technology to strengthen networks in several ways including creation of list-serve discussion groups, Web-based seminars, and the use of software packages that enable community organizers to "map" relationships and information flow among members.

Sources: Thomas S. Lyons, "Building Social Capital for Rural Enterprise Development," *Journal of Developmental Entrepreneurship*, August 2002, pp. 1-16 and <http://www.acenetworks.org/>.

roughly inferred from local “ambiance”. After someone is part of a local network or has been excluded from those networks, a more informed judgment can be made about how an individual will be able to build and use social capital. Social capital also contributes indirectly to local quality of life because community cohesion helps mobilize resources to create cultural, recreational, and other amenities.

Micro Credit

Social capital makes micro credit lending feasible. Micro credit practices emphasize making loans to individuals with inadequate resources. Social capital can be thought of as the loan's collateral (Reinke, 1989). Failure to repay will make it more difficult for other potential borrowers in the network to get loans in the future.

Micro credit practices not only depend on social capital, they also build networks that can be used to further economic development. Once cottage activities are formed, the same, probably strengthened social networks can be helpful in modifying the product, developing alternative production techniques, and tapping new markets. Village or neighborhood workers may share skills, contacts, and other information in ways similar to what is done in advanced technology clusters.

Globalization

Social capital can help regions maintain location advantages, particularly among knowledge-based firms in a global economy characterized by rapid changes in product mix, production technology, and other factors. In this environment, the value of physical plants may decline, rapidly leaving companies little incentive to remain in the area. Such facilities can easily relocate to a lower labor cost area.

Social capital may anchor knowledge-based companies because knowledge employees are not interchangeable parts. Individual employees may not relocate because of the area's social capital expressed in relationships with neighbors, attitudes toward their children's school, or the general fit with the community.

When companies fear their top talent may not relocate, they will be more reluctant to relocate facilities. As people age and become more important to their organizations, they also become attached to their local communities, making the facilities more reluctant to relocate.

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Might firms avoid the location orientation of social capital by relying on virtual office technologies to retain high value employees who do not relocate? Virtual office solutions will not work for many enterprises. Firms may risk diminishing their internal social capital by reducing the number of personal contacts, spontaneous encounters, and face-to-face exchanges important to intra-firm networks that also have productive consequences. Thus, intra organizational social capital also anchors establishments. Social capital within a firm may be affected by the nature of the social capital elsewhere in the community.

Informal Activities

The informal economy includes significant (often unrecognized) economic development activities that are not fully accounted for in the formal sector. These activities have less access to traditional legal protections than formal businesses in part because operations tend to evade laws and regulations. Agreements tend to be sealed with a hand-shake rather than a formal contract. Consequently, values and attitudes of trust and reciprocity (social capital) are important to successful operations. Many businesses in the informal economy are able to operate successfully because of how they use social capital.

Consider child care services. In the informal economy, day care may be provided in the home of a friend or relative. The provider may need flexibility in terms of fee structure, hours, services provided, and so forth. Such arrangements can often be established better when social capital exists between the parties. Social networks may operate to reinforce shared norms. For instance, if the service provider was shirking his or her duty, a mutual acquaintance might say something to either the parent or provider.

Social capital operating in the informal economy contributes to business start-ups. Many small enterprises initially operate based on informal arrangements with customers, employees, or vendors. Reputations often spread through a social network (word of mouth), helping the business expand. Many of the fastest growing activities of modern economies – elder care, home cleaning, pet sitting, lawn services – have historically depended upon social capital in the formative stages.

After a start-up phase, some businesses may improve growth prospects by becoming more formal. They will have easier access to capital, marketing channels, and other public and private services. However, the transition to more formal operations will sometimes alter the ability to use social capital.

For instance, it may be more difficult to maintain a flexible relationship based on trust with some customers while applying more rigid rules to others. Understanding the nature of the transitions will help local practitioners assist firms.

The Social Economy

Comprehensive economic development plans should not ignore the social economy organizations that have significant economic functions, but are not primarily profit oriented. The size of the social economy has been estimated to be about 10 percent of most local economies and the percentages would be even higher if in-kind grants and transactions were included. Like the informal sector, many activities in the social economy are not adequately documented. Development contributions of the social economy include supporting low income individuals as many church-based organizations do and enhancing household income through such activities as community gardens, local currency plans, and human capital development.

Organizations in the social economy often depend upon social capital to carry-out their activities in part because they have relatively fewer monetary resources. Leaders of organizations in the social economy often have great skill at using social capital because they depend upon volunteer labor and team work to get things done.

Mitigating Economic Development Conflicts

The economic development process generates conflicts among various groups. For instance, property developers sometimes support new roads that are opposed by neighborhood groups. Sometimes these conflicts harm economic development by generating gridlock, involving costly reconciliation processes, or resulting in missed opportunities. When these conflicts arise, they are sometimes resolved based on “what’s good for the community”.

Local economic developers can use social capital to mediate economic development conflicts in at least two ways. First, social capital can be used to provide a forum for dialogue and compromise. Second and more subtle, social capital can be used to construct a community vision or “meta-narrative” that can frame unanticipated conflicts that may arise in the future (Lejano and Wessells, 2006). When specific conflicts can be evaluated in terms of widely shared visions, solutions can be considered within the context of community interest in much the way land use plans reduce some conflicts. However, even when consensus is struck around abstract meta narratives, there will still be disagreements and the need for compromises.

Many communities are rethinking the definition and purpose of economic development. The rethinking is motivated by the realization that useful energy and materials are being depleted and economic and environmental sustainability is threatened. Non polluting and “self actualizing” development paths are appealing. Local social capital will be an important element in community searches for new models of local economic success.

The concept of social capital can also be used to unify the practice of economic and community development. Traditionally, economic development focused on a set of variables that are business oriented while community

CityWide Development Corporation, is a large, non profit economic development organization. It has primarily provided gap financing and other incentives to attract and expand businesses in Dayton, Ohio. When CityWide decided to make a significant investment in the declining Fairview neighborhood, officials realized that strengthening the area’s social capital would reduce barriers to private investment and should precede “brick and mortar” projects. Working in partnership with the city of Dayton and Good Samaritan Hospital, the largest private stakeholder in the area, CityWide began the Phoenix project by learning about the social conditions of the neighborhood, gathering and evaluating existing data, and starting conversations with community organizations.

It hired community organizers to mobilize stakeholders toward developing a mandate for improvement. Organizers met with church leaders, local retailers, city police, neighborhood schools, local social service organizations, and resident associations. Through these efforts and the financial investments of the partners, a strategic vision for change emerged. Working together, these stakeholders provided a variety of resources — time, energy, ideas, and influence as well as money.

Good Samaritan Hospital and commercial businesses recognized that their futures were tied to the revitalization of the area as much as local residents. Their visions may have emphasized different aspects of development, but together they dove-tailed into a consistent image of what the neighborhood could be. Discussions evolved as contacts increased among leaders of various organizations, consensus was built, and social capital grew.

Successful community based actions that contributed to neighborhood viability and further strengthened social capital included:

- A summer job training program for area youth initiated by the Dayton Urban League and Unified Health Solutions,
- Expanded park and pool programming by the city of Dayton Department of Recreation and Youth,
- A community policing program,
- A mini grant program to spur resident-led improvement activities,
- A prayer walk against violence sponsored by a group of ministers,
- A neighborhood newsletter initiated by area residents,
- Grassroots effort to declare drug houses “public nuisances” and efforts to limit liquor sales by local residents, and
- Planning efforts that raised the visibility of the neighborhood.

As social capital has grown, private investment has been encouraged. Other public monies have also been committed to Fairview. As is typical, no “happy ending” can be declared. Recently, the national mortgage crisis resulted in a softer housing market, creating new challenges. However, a new commercial gateway is underway that will help anchor and identify the area and a new PK-8 school will be built in the heart of the redevelopment area. These improvements are expected to attract additional investment. Local observers believe the foundation of a social capital oriented community development is paying dividends.

Source: Steven J. Budd, President, CityWide Development Corporation

development workers concerned themselves with neighborhoods and service programs for disadvantaged groups. These orientations frequently conflict. The recognition of social capital as both a consumption good and a contributor to business development will help

bridge the gap between these areas. The sidebar regarding CityWide's approach to neighborhood revitalization illustrates how local social capital can help make an area a more pleasant place to live while attracting investment.

Social capital can make positive contributions to local economies by improving the performance of both for profit firms and social economy organizations. Therefore, economic and community development officials are challenged to find ways to create, preserve, and use social capital.

BUILDING SOCIAL CAPITAL

Cultural and historical factors have contributed to the development of social capital. Coleman (1990, p. 313) concluded that, "Most forms of capital are created or destroyed as the by-product of other activities. Coleman's observation could lead to pessimism about the ability of local officials to create social capital.

Institutions and networks that are held together by bonds of trust, reciprocity, and shared values are both repositories and generators of social capital. Once civic and other networks are formed, social capital can be produced much easier than environments that lack such organizations. So it is tempting to assume that if a community has few social capital creating organizations, little can be done to create social capital.

In addition to the "chicken/egg problem, social capital builds very slowly. Its genesis often is in the nano-exchanges such as a smile, nod, or pleasant word. There are only a few instances where someone can identify a moment where social capital was produced. Therefore, creating social capital can seldom be credited to a single action or a single person. People who help develop social capital may not be recognized for their effort.

Most of the production and "consumption" benefits of social capital can be captured even by persons who do not contribute to its development or who do not share the attitudes that measure the presence of social capital. Therefore social capital has important public goods characteristics. As in the case of most public goods, economists recognize the need for public intervention to achieve optimal levels of output.

Governments exert indirect as well as direct influence on the creation of social capital as they pursue other goals such as police protection and land use plans. The CONCISE project reported empirical evidence on the importance of the social economy in generating social capital. Support for local social institutions in the process of economic development practice may strengthen local social capital.

In concrete terms, there is no formulaic technique for producing social capital. Economic development and chambers of commerce officials are often at the center of key economic networks and can use these positions to build social capital. "Meet and greet" sessions and appropriate advisory boards are valuable in part because they build social networks. Economic development officials can also support the actions of other civic groups that contribute to an area's social capital.

Business expansion and retention studies have been used to bring businesses into community networks. An economic development organization may first reach-out to small businesses, asking questions about plans, needs, and concerns. Successful strategies require quick follow-up so that trust is built and the responding businesses do not see themselves as cogs in a bureaucratic process. Eventually, networks develop and businesses can be brought into other civic processes. Business persons who have volunteered to help in such studies benefit in part by increasing their social network.

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Residents in Dayton's Phoenix Project area have facilities in which to meet and express their concerns through a neighborhood "priority board" system supported by the city.

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MAINTAINING SOCIAL CAPITAL

Social capital does not necessarily get depleted from use. In fact, using social capital under the correct circumstances can increase it. Consider a group of people who come together to build a community center. The project will require groups to work together towards a common goal. Contributors trust that if they put forth effort, others will do their share. Organizations within the community will work with each other; information channels will develop; participants will feel part of a

group. When a project is successfully completed, social capital in the community will likely be enhanced.

While social capital cannot necessarily be depleted from use, it can be lost or diminished in several ways. First, organizations may undertake a project beyond their abilities. In some cases, the overwork or lack of success will weaken social bonds. Individuals may be unwilling to commit to future projects with the same people. When the tasks are unrealistically excessive, some parties may feel that others are not doing their share, weakening the bonds of reciprocity and trust. Thus, policy makers should match the means of particular networks with the ends when asking organizations to undertake community projects. Too many failed projects will certainly erode a community's ability to band together on future projects.

Also, an inadequate reward structure can undermine stored social capital. Individuals join organizations for a mix of selfish and civic motives. If rewards are not seen as equitable, some participants may believe they were taken advantage of. Their belief that the organization is bound by shared values will diminish. Third, having too little to do can create a sense of purposelessness, resulting in dissipation of organizations that are embedded with social capital.

Fourth, changes in the external environment can also break the bonds necessary for effective capital. Concern has been expressed that economic change can destroy community cohesion. As individuals are displaced from jobs and neighborhoods, everyday nano-exchanges that contribute to social capital diminish. Consequently, social capital will diminish.

Leadership positions in communities are tied to economic roles and influence. Some areas are losing the economic roles that supported community leadership. In these areas, persons who used to own or manage local enterprises become branch managers, passing through the area on career ladders that will eventually take them to a corporate headquarters. As a result, the ability to create social capital has diminished. The threat can be acute in small areas because business organizations are consolidating in fewer, large financial and technology centers. Mergers and other consolidations reduce the number of business leaders who can reach the top of their field while putting down roots in their community.

Tensions are not new between economic changes and the desire to maintain social institutions. What is new is the pace of economic change, which may be exceeding the ability of social networks to adapt. Personal relationships generally take much longer to congeal and are slower to change than many strict market oriented relationships. If the economic positions of community leaders change due to relocation, job loss, or other economic change, their social roles in communities will also

change. Accordingly, policy makers may be particularly concerned with preserving social capital in periods of rapid change when the threat is greatest to social capital.

THE DOWNSIDE OF SOCIAL CAPITAL

The majority of the burgeoning literature casts social capital in a very favorable light, perhaps because it represents something missing in modern urban life. But social capital can be thought of as a tool that can be used to achieve certain ends and may have negative consequences (Carroll and Stanfield, 2003). Elected officials and business leaders have been known to form networks where trust and reciprocity resulted in deals that may

harm the public interest. At an extreme, some gangs, terrorist organizations, and crime families probably have significant bonding social capital that makes them effective. It is therefore worth asking whose ends social capital serves.

Florida recognized that excessive social capital can result in newcomers being "locked-out" and not accepted into communities (2002). Sometimes social capital may be used to impose standards that result in excessive

conformity. Attitudes can develop that narrow sets of behaviors which are necessary in order to be accepted into local social networks. Social ties can exist within groups that lock out others.

Local officials may have difficulty distinguishing between the positive and negative consequences of social capital (Trigilia, 2001). This difficulty is particularly potent when local development officials are themselves members of dominant networks. Officials may feel that the networks they are familiar with are the only important ones. Ethnic networks can also become dysfunctional to economic development if the result is that other groups are excluded.

Markets and politics can serve as checks on dysfunctional social capital – social capital that diminishes wealth. Networks of mutual assistance, for instance, can create moral hazards, causing some members to exploit the system by free riding – taking advantage of other members in the network but not contributing. Other network members may tire of carrying the non-contributors. Similarly, the costs of hiring less than competent employees because they are part of a network can become excessive. As the costs of sustaining inefficient networks increase, either the market or the political system may exert pressures for change.

Politics is a second solution to preventing social capital from becoming dysfunctional. Bureaucratic (formal, codified rules that apply to everyone) policies for hiring and operating serve as a balance to cronyism and subjectivity. Also, politically determined allocation of resources can shape the system of social networks. This



The presence of social capital enhances discussions in which ACEnet seminar members learn from each other.

authority can be captured by some social networks as other groups are excluded. For instance, there is controversy regarding whether faith-based organizations, which are generally rich in social capital, should be used to deliver social services.

Some observers might suggest that local governments should not be concerned with altering the system of use and development of social capital. Certainly the ability of government officials to understand how to construct networks is limited. In this regard, the conclusions of the Canadian Research Board seem compelling. "...We have concluded government action could be more effective if, in developing relevant programs and initiatives, the role of social capital were taken into account more systematically. This does not mean, however, that governments could pursue grand strategies...." of social engineering.

CONCLUSION

Social capital has been an implicit part of the local economic development atmosphere. Now it is being examined explicitly and moving towards prominence as an important factor shaping communities. The concept of social capital promises to illuminate important aspects of the local economic development process and provide new conceptual tools for community and economic developers. In spite of its promise, there are many ambiguities and uncertainties regarding the nature and use of social capital. 

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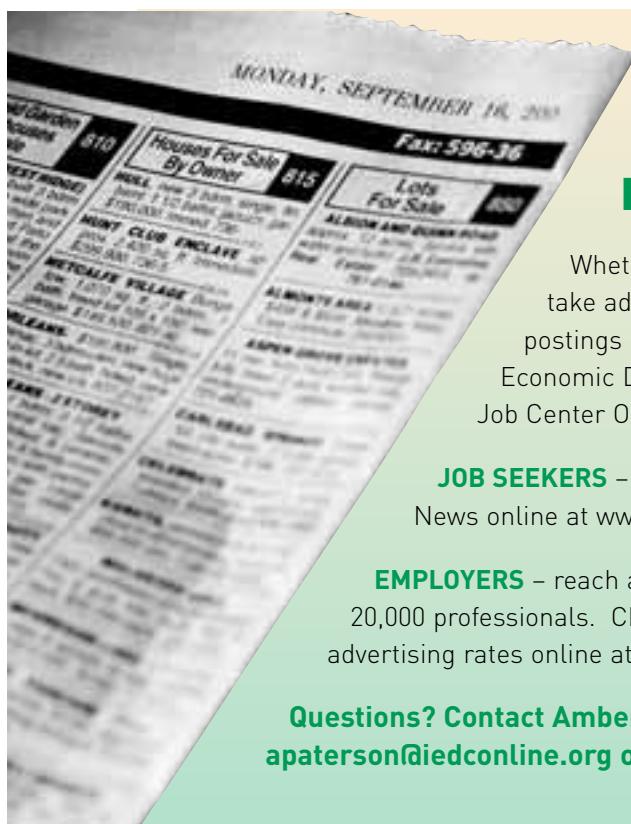
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