

SOCIAL CAPITAL AS A NON-ECONOMIC DETERMINANT IN THE ECONOMIC GROWTH : EMPIRICAL ECONOMIC ANALYSIS

Based on the results that derived from the conducted in the article empirical economical analysis, it was revealed that from the beginning of the 1960s factors, which impact the economic growth, have noticeably been changing. During the last decades, it can be observed in economic literature that ‘traditional’ or the economic factors (physical capital, land, labour etc.) are supplemented by ‘non-traditional’ or non-economic factors (globalization, technological, information, human capital, energy and resources, environmental, cultural and religious, political and institutional). It was ascertained that many of non-economic factors are social capital components (institutions, formal and informal norms, values, social networks, information exchange etc.). Thus, social capital is non-economic factor that contributes to the modern economic growth.

Keywords: social capital; non-economic factors; economic factors; economic growth; economics.

The problem to research in general.

During the last few decades, there have been several major updates in economists’ views on factors contributing to the economic growth. Thus, Finnish economist R. Hjerpe affirms that approximately 40 percent to 60 percent of the economic growth process is left unexplained by changes in the factors of growth. He notes that “one of the major puzzles of the studies of economic growth is why both the level of GDP and the rate of growth differ so much between countries. Since growth is so essential in our thinking about welfare, we should know what forces underline the growth process” [7, p. 1].

Indeed, political leaders, policy makers, economists and other academics in many countries around the world are inclined to believe that stock of physical capital, financial capital and other types of capital recognised in economics are not the key factors in the economic growth in the context of globalization, frequent economic and financial crises. Their efforts are focused on searching for the ‘hidden’ forces driving the economic growth that can help to develop an effective model of economic development and to respond to many challenges arisen in the modern realities.

Now it is becoming more apparent the fact that the contemporary economic development are driven not only by economic factors (capital, land, labour, available factories, technology, buildings etc.), but also by prevailing non-economic factors, is one of which is social capital. “It’s not important what you know, it’s important who you know”. This

aphorism, which expresses concisely the social capital essence, becomes now widely recognised in the economy as a non-economic factor that effects the economic growth. That is why social capital concept has emerged as an area of substantial interest to a large number of researchers including economists. They attempt to clarify and explain the social capital phenomenon and its impact on the economic growth at the empirical level.

In view of the above-stated, the need for doing empirical economic analysis on social capital as a non-economic determinant in the economic growth can be justified. The practical value of the research findings is disclosed in terms of the reforms undertaking in Ukraine in economic, which are expected to develop the social capital as non-economic factor in the national economic growth.

The analysis of the recent research and publications. Scientific literature, the studying of which has preceded the writing of the article, can be divided into the four groups :

(a) fundamental studies on social capital concept, the findings of which were published in scientific papers of Pierre Bourdieu, Gary Becker, James Coleman, Robert D. Putnam, who are considered as the founders of the concept;

(b) studies of contemporary Western academics and researches, who developed social concept provisions, such as Wayne Baker, Ronald S. Burt, Ben Fine, Patrick Francois, Francis Fukuyama, Dario Gaggio, Christiaan Grootaert, Francisco Herreros, Reino Hjerpe, David Knoke, Nan Lin, Dimi-





tris Milonakis, Alejandro Portes, Richard Rose, Oliver E. Williamson, Hans Westlund, Michael Woolcock et al.

(c) dissertations and scientific works of Russian researchers, in particular O. Konkov, O. Konev, A. Lantsman, N. Larionov, D. Merkulova, D. Popov, V. Radaiev, S. Raksha, O. Tartarko, M. Feyzba, S. Shtyrbul et al.

(d) findings on different aspects of social capital that were revealed by Ukrainian scientists and researchers, such as S. I. Bandur, N. E. Horozhankina, O. Grishnova, M. Doronin, E. Dragomirova, Y. Zaitsev, R. Mishin, A. Beyvolk et al.

The above-stated authors' papers enabled to understand better the social capital nature, essence, and its modern particularities.

In the article, social capital is reviewed as the institutions, relationships, and norms that shape the quality and quantity of social interactions, which are crucial for the economic growth. This definition was developed by the World Bank Group [13] and it seems that it suite the paper research best of all. From the economic point of view, the definition of social capital provided by C. Grootaert and van Bastelaert [5, p. 4] attracts an attention. They define social capital as the institutions, relationships, attitudes, and values that govern interactions among people and contribute to economic growth. Economic growth is broadly considered as an increase in the capacity of an economy to produce goods and services (outputs of an economy), compared to the certain short-run or the long-run periods of the time.

The results obtained from the literature reviewing of the above-mentioned authors give reasons to ascertain that empirical economic analysis on social capital as a non-economic determinant in the economic growth is currently on a periphery of economics in Ukraine. In view of the foregoing, the need for conducting an empirical analysis within the article can be justified.

The practical value of the research findings is disclosed in terms of the reforms undertaking in Ukraine in economic, which are expected to develop the social capital as non-economic factor in the national economic growth.

The aim and the objective of the research that has to be done in the article are :

to make a brief historical review on the genesis of social capital and justify it as a non-economic factor;

to identify its role in the economic growth based on the analysis of empirical studies available in economic scientific literature.

The main research results with justification. If make a brief historical excursus on social capital genesis it should be mentioned that classical economists, such as A. Smith, D. Ricardo, J. S. Mill, T. Malthus and other founders of the modern economics school, identified the following three basic economic factors in the economic growth: physical capital (i.e. machinery, buildings, tools, equipments, technology, etc.) land; and labour. In the 1960s, Theodore W. Schultz and Gary S. Becker, American economists, the Nobel Laureates in Economic Sciences, introduced into scientific circulation 'human capital' notion. T. Schultz in the paper "Investment in Human Capital" [11, p. 1-17] spread and justified an idea highlighting specifically the need to investment in education, which he called as educational capital. He asserted that dominant social thought shapes the institutionalized order in society and established institutions malfunctioning in turn alters social thought. Shortly, Becker [1, p. 9-49] introduced the 'human capital' notion and transformed Schultz's idea into the Human Capital Concept. In the paper "Investment in Human Capital: a Theoretical Analysis" he proved that human capital is originated by social and cultural aspects, as well as investment in this type of capital has economic return and benefits. Nowadays, many economists argue that educated, trained, and healthy workers are an essential non-economic factor that determines productivity and has macroeconomic implications: therefore, it should be utilized.

However, the current practice evidenced that the latest equipments and innovations, the most skilled, qualified and fittest workers will generate little economic profits, unless they get access to information resources, to communicate, interact and cooperate with other workers, to exchange of knowledge and expe-

rience. In other words, human capital should be complemented with social capital. If human capital is embodied in individuals, then social capital has room in relationships.

It is believed that the 'social capital' term was for the first time used by Lyda J. Hanifan [6, p. 130-38] as reference to 'goodwill, mutual sympathy, and fellowship, social intercourse among a group of individuals and families'. The author drew attention to the need for social cohesion, supporting of rural schools and community by means of investment in people, as "social capital". In other words, the term was used to highlight the importance of social investment and community participation in enhancing of school performance.

Nowadays, the 'social capital' concept attracts more and more attention of scholars and researchers. Pierre Bourdieu [2, p. 241-258] used the social capital concept to refer to mutual relations established by the agents in social networks that can be a resource to benefits. He defined social capital as 'the aggregate of the actual or potential resources, which are linked to possession of a durable network of institutionalized relationships of mutual acquaintance and recognition'. According to J. S. Coleman [3, p. 304] social capital is similar to other types of capital (as it is productive) and differs from them (as it emerges on basis of mutual trust, other social norms; it is embodied in relationships between and among individuals). In his opinion, social capital is a resource generated in social networks, based on the trust social relationships that individuals, economic agents maintain within the networks. R. D. Putnam, a political scientist at the Harvard University, in the study "Making Democracy Work" [10] has applied the social capital concept to explain the differences in economic and governmental performance between the Northern and Southern regions in Italy. F. Fukuyama [4, p. 8] defined social capital as an instantiated informal norm that promotes cooperation between two or more individuals. He claims that a lack of social capital leads to political dysfunction, making institutions undemocratic, and slowing down in economic growth. Fukuyama argued that the economic function of social capital is to reduce the transaction

costs associated with formal coordination mechanisms like contracts, hierarchies, bureaucratic rules, and the like.

In the World Development Report [12 : 19, 41, 201] is stated that social capital and modern institutions such as rule of law, improving contractual relations may reduce transaction costs and contribute to mutual agreement. Social capital, formal and informal institutions can improve: the performance of physical capital; human capital accumulation; efficiency and management based on trust on partnership.

Based on the results that derived from the foregoing analysis, it can be concluded that social capital is an important factor in the economic growth. Obviously, factors that affect the economic growth can be divided into economic factors, such as physical capital, land, labor, and non-economic factors, in particular human capital and social capital.

It should be mentioned that similar approaches to grouping factors of economic growth were used by P. L. Ipatov [8] and A. A. Konev [9] Russian economists. They distinguish the following non-economic factors in economic growth:

psychological (moral and ethical values, cultural and historical traditions etc.);

institutional (state power institutions, such as legislative, executive and judiciary bodies at all public administration levels, civil society institutions, NGOs, political parties, associations, trade unions, etc.);

political (social and political stability, a political regime, military, economic and social policy, etc.);

geographic and demographic (a geographic location, a climate, natural resources, population et al.).

In fact, the psychological factor, under which the author understands the society established cultural traditions and moral rules and values, as well as institutional factor combined the components of social capital. According to the authors, the first factor is the most important in determining the short-term economic growth. They rightly argue that the psychological factor depends on a public confidence in the economic and political institutions. This factor may change due to institu-





tional and political factors in a long-term period.

P. L. Ipatov [8] also identified that the institutional and political growth factor is important in the context of 'new economy' formation. He formulated causation algorithm between factors and conditions for the sustainable economic growth, which can be represented as the following:

social capital development → civil society building → improvement in quality of political and economic institutions → sustainable economic growth.

It seemed that this algorithm is quite noteworthy. Nevertheless, it may assume that there are other non-economic factors influencing on the economic growth. The empirical knowledge and experience gained by the author as well as the above-stated research results enable him to separate out the following non-economic factors of economic growth: globalization; technology; information; human capital; energy and resources; environmental; cultural and religious; political and institutional. Taking into account the foregoing all factors can be illustrated on the Fig. 1.

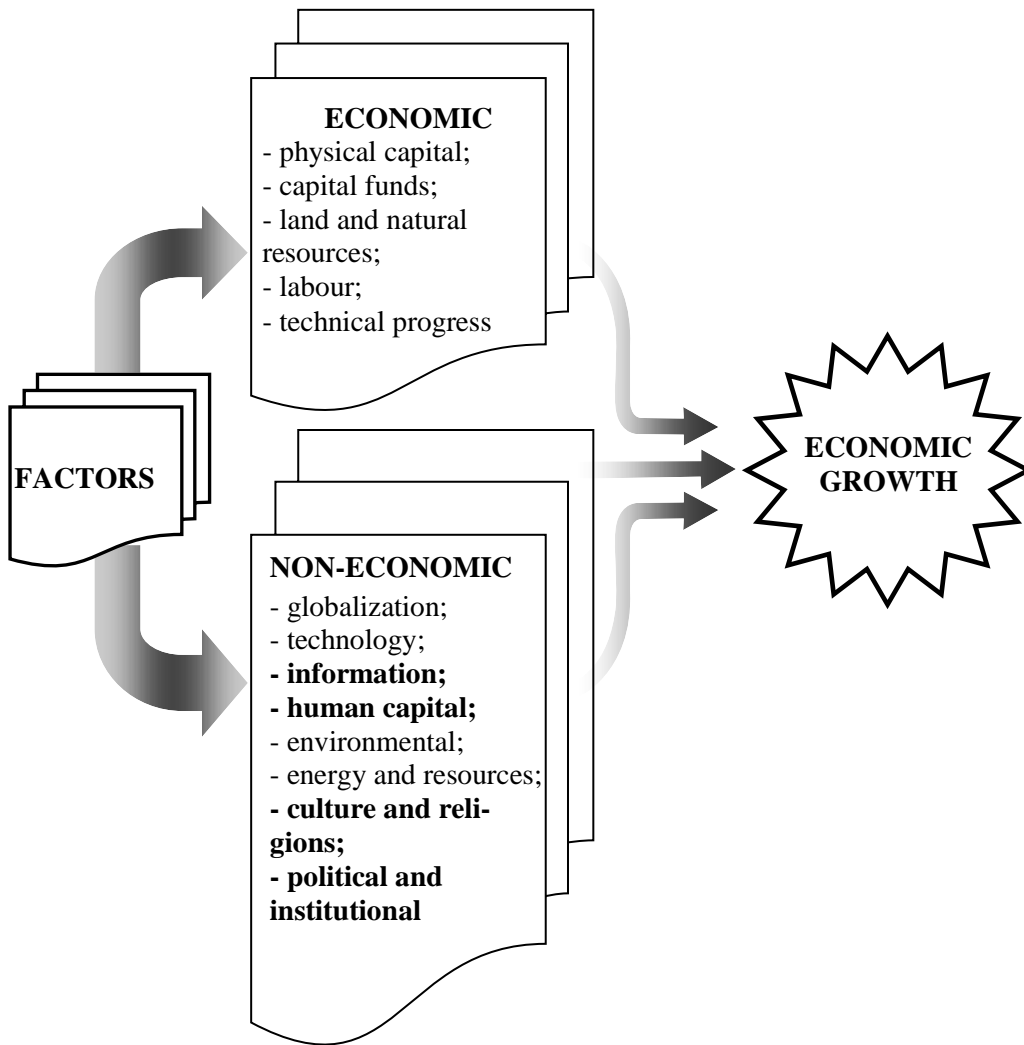


Fig. 1. Scheme on classification of the key economic growth factors

Source: developed by the author

It makes sense to describe briefly non-economic factors in economic growth. Nowadays no one doubts that inclusion into the globalization process determines significantly the economic growth of any country in the world. Globalization intensifies the social, economic and other links and creates vast op-

portunities for businesses, economic agents. Modern business relations, economic and commercial relations are mostly established via the Internet and maintain in social networks that based on the trust. In other words, economic globalization is a factor that contributes to the effective interaction of individual economic entities and, consequently, in-

creases the economic growth in a particular country.

Technological factor is based on a set of techniques in a particular industry, methods of raw materials processing, its permanent development and renewal. The factor is closely associated with new sorts of products, patents, trends in research and development works etc. Technologies, which are resulted from an intellectual human work, enable to expand the capabilities for usage of biological, physical, chemical and other substances in the material production sphere. It is clearly that technological progress leads to better economic outcomes and economic growth.

Information flows or information factor is, obviously, an important non-economic factor in modern economic development. The economy in post-industrial era is based on 'three pillars': knowledge, science, and information. Information is a valuable resource that largely determines and changes a quality of the economic growth. Information is a "core" of the modern economy that transforms it into information products and services, which are subject to extensive production and consumption. Information and technological progress modified business and modern production, led to the elimination of intermediaries in a production process. The process of information transmitting over the Internet has accelerated the speed in concluding of contracts between raw materials providers and purchasers finished products, goods, it has opened the possibility to work at home, reduced costs and increased economic efficiency. As a result, it facilitates the economic growth.

Information flows and globalization of information space are closely linked to the social networks establishment, the social capital formation and development. It is well-known, information flows are exchanged in social networks, which in view of the above-stated can be attributed to important resources in economic activities. Social networking is a basic social capital element. Therefore, the information flows are generated social capital, which in this case can be considered as non-economic factor in the economic growth.

The above-mentioned factors and components are directly related to human capital. Indeed, a human being is a carrier of advanced knowledge and experience, to whom is given the key role among the other production factors. Modern high technologies and advanced tech-

nical production means create a human being who has the relevant scientific knowledge. It is clear that the key role in high-tech processes management is played by highly skilled workers and professionals. In this context human capital is an important driver in the economic growth.

Over the last two decades the importance of ecological factor, which is non-economic one, has significantly increased in the economic growth. It is natural phenomenon, as a rapid expansion and usage of technical production means leads to increased pollution levels. Extensive growth rate of production is indicated by excessive environmental overload, greenhouse warming, the occurrence of man-made emergencies and disasters. Nowadays, in many places in the planet due to careless economic activity it can be observed the irreversible environment degradation, which makes these places unsuitable and unsafe for human habitation. Economic agents attempts to maximize profits by increasing industrial production while environmental safety is leveled impact extremely negatively on the ecology state. As a result, harmful substances emissions reach a critical edge and there is a massive destruction in flora and fauna. An excessive pressure on environment leads to a deterioration in many social and economic spheres. There is a risk fro polluted territories to be transformed into deprived areas. Hence, the total environmental expenditures from state and local budgets are to be grown and directed at environment protection. The importance of environmental factors can be proved by assigning environment protection (along with economic development and social welfare) to the "three pillar" in sustainable development paradigm.

Energy and resource factor is other growing in importance non-economic factor in modern economic growth. Technical progress and modern technology are dramatically resulted in increased resources demand and energy consumption. In a postindustrial economic development era increased this factor becomes a decisive driver in the economic growth.

Cultural and religious factor also makes a significant impact on economic growth. Evidence to prove that is guanxi concept. It is an analogue of social capital, an informal ideology in Chinese society, which is based on cultural and religious values (moral obligation to maintain relationships, an impeccable business reputation, prestige, social status, integrity etc.). Quanxi is a key idea that grounds the success in





undertaken economic reforms, market economy development in the country. This concept is based on dynamic interpersonal ties and relations in social networks. As it can be observed now, China demonstrates the unprecedented economic growth and economic performance in the world.

Political and institutional factor is a non-economic, endogenous factor that influences on economic development largely. In essence, the political factor is a crucial one in determining of fiscal, budgetary, tax, price, customs, social and other policies. It affects the economic activities and the scope of the national economy. Policy makers pass legislations that regulate business and economic activities. Institutional factor is characterized by state institutions activities aimed at implementation of the relevant regulations, economic and other policies, as well as identifying of economic development priorities. Executive authorities and local self-government bodies are responsible and obliged to solve these issues. It is clear from the above-stated that the political and institutional factor determines largely the economic growth rate and national economy development depends on the effectiveness and quality of state institutions.

The findings that resulted from the conducted in the article research enable the author to draw the following conclusion.

A brief historical reviewing on social capital genesis gives reasons to assert that from the beginning of the 1960s factors that impact the economic growth have been changing. 'Traditional' or economic factors, such as physical capital (i.e. machinery, buildings, tools, equipments, technology, etc.), land, and labour, are insufficient arguments and unreliable econometric data to explain the economic growth in the current economic conditions.

During the last decades non-economic factors including social capital are on a 'proscenium' in contemporary economic literature. The results that derived from the conducted in the article analysis enable to determine the following key non-economic factors in the economic growth : globalization; technology; information; human capital; energy and resources; environmental; cultural and religious; political and institutional. Taking into account the social capital characteristics, the following non-economic factors (in bold in Fig. 1) can be partly considered as social capital elements, namely : information factor (information resources are shared by economic agents in social networks through

membership in the networks; it important advantage of social capital); cultural and religious factor (informal norms, including religious and cultural rules, social traditions, moral values are integral components of social capital); human capital (human capital are widely related to social capital); political and institutional factor (governmental, nongovernmental, and private institutions, as well as formal and informal norms, links between them are constituted social capital paradigm). Thus, social capital plays an important role in the economic growth. The prospects for the further research are: analysis of the formal (legal) and the informal (social) norms in social capital and their impact on the economic growth.

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Социальный капитал как неэкономический показатель экономического роста: эмпирический экономический анализ

На основе полученных результатов в статье проведен экономический анализ эмпирических данных, было обнаружено, что с начала 1960-х годов факторы, влияющие на экономический рост, заметно изменились. В течение последних десятилетий, что отмечено в экономической литературе, «традиционные» или экономические факторы (физический капитал, земля, труд и т.д.) дополняются «нетрадиционными» или неэкономическими факторами (глобализация, технологическая, информационной, человеческий капитал, энергия и ресурсы, экологические, культурные и религиозные, политические и институциональные). Было установлено, что многие из неэкономических факторов являются компонентами социального капитала (учреждения, формальные и неформальные нормы, ценности, социальные сети, обмен информацией и т.д.). Таким образом, социальный капитал является неэкономическим фактором, который вносит свой вклад в современный экономический рост.

Ключевые слова: социальный капитал; неэкономические факторы, экономические факторы, экономический рост, экономика.

Шаповалова Т. В.

Соціальний капітал як неекономічний показник економічного зростання: емпіричний економічний аналіз

На основі отриманих результатів в статті проведено економічний аналіз емпіричних даних, було виявлено, що з початку 1960-х років фактори, які впливають на економічне зростання, помітно змінилися. Протягом останніх десятиліть, що відзначено в економічній літературі, «традиційні» або економічні чинники (фізичний капітал, земля, праця і т.д.) доповнюються «нетрадиційними» або неекономічними чинниками (глобалізація, технологічна, інформаційна, людський капітал, енергія та ресурси, екологічні, культурні та релігійні, політичні та інституційні). Було встановлено, що багато з неекономічних чинників є компоненти соціального капіталу (установи, формальні і неформальні норм, цінності, соціальні мережі, обмін інформацією і т.д.). Таким чином, соціальний капітал є неекономічним фактором, який вносить свій внесок у сучасне економічне зростання.

Ключові слова: соціальний капітал; неекономічні чинники, економічні фактори, економічне зростання, економіка.

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