

“The Impact of Social Capital on Central and Eastern European Countries’ Economic Performance: Similarities and Differences”

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Non-Technical Summaries

Paper No. 1: Social Capital, Trust, and Multiple Equilibria in Economic Performance

The article explores a novel mechanism giving rise to poverty traps and multiple equilibria in economic performance. It is a potentially important source of persistent underdevelopment across countries and regions. At the core of this mechanism, bridging social capital (social ties with dissimilar others) and social trust feedback on each other, interdependently affecting individuals’ earnings and subjective well-being:

- high trust and abundant bridging social capital reinforce each other, leading to a “high” equilibrium where both these variables take persistently high values, and earnings and well-being are high as well;
- low trust and lacking bridging social capital create a vicious circle, leading to a “low trust trap” where all these variables are persistently low.

The workings of this theoretical model are in agreement with a wide range of findings from the contemporary literature in sociology and social psychology.

The methodology consists in building a theoretical dynamic general equilibrium model where agents endogenously allocate a fraction of their scarce time to accumulate bridging social capital, in order to maximize their discounted stream of subjective well-being. They are assumed to draw well-being from consumption and the stock of already accumulated bridging social capital. The ease with which they set up new social ties depends, among other factors, on the level of their social trust, which is first considered as exogenous, and then subsequently endogenized.

The principal findings of the paper are presented in the form of the following propositions:

- The stock of bridging social capital is positive in the long run only if forming social new social ties is “sufficiently easy”. Other things equal, this happens if social trust is strong enough.
- If positive, the steady state level of bridging social capital increases with social trust. The share of time devoted to social capital accumulation decreases with social trust.
- For a given, sufficiently high level of social trust, the relationship between bridging social capital and earnings (and subjective well-being) in the vicinity of the long-run equilibrium is inverse U-shaped: at low levels of bridging social capital, it increases earnings; at high levels, it decreases them.

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- The higher is the TFP growth rate, or the lower is the individuals' discount rate, the more time will be allocated to social capital accumulation in the long-run equilibrium, and the more bridging social capital will be formed over the long run.
- Employed persons have an unambiguously higher long-run level of bridging social capital than non-employed ones. The amounts of time spent on social capital accumulation by the employed and non-employed cannot be unambiguously ordered.

Keywords: bridging social capital, social trust, earnings, subjective well-being, multiple equilibria, poverty trap

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Paper No. 2: Trusting Only Whom You Know, Knowing Only Whom You Trust: The Joint Impact of Social Capital and Trust on Individuals' Economic Performance and Subjective Well-Being in CEE Countries

The paper provides evidence that bridging and bonding social capital as well as social trust may interdependently affect individuals' earnings and subjective well-being. Based on cross-sectional World Values Survey (WVS) 2000 data on individuals from Central and Eastern European countries (CEECs), the paper finds that:

- majority of citizens of CEECs seem to fall in a "low trust trap" where deficits of bridging social capital and trust reinforce each other in lowering individuals' incomes and well-being,
- an increase in labor market participation can be perceived as a potential way out of this "trap" because employed people in CEECs have statistically significantly more bridging social capital and more trust.

The methodology of this empirical paper consists in estimating a range of micro-level cross-sectional regressions. Individual incomes and subjectively reported well-being are the dependent variables here, and the set of potential explanatory variables includes measures of social capital and trust, as well as several other socio-economic characteristics. Most of the time, instrumental variables (IV) estimations are performed. The necessity to use the IV method results from the presence of a simultaneous reverse causal link from earnings and well-being to social capital. Robustness checks performed here indicate that the high risk of endogeneity and omitted variables bias might have been overlooked in numerous earlier studies.

Specifically, our "baseline" regression results indicate that:

- both bridging and bonding social capital exert a negative impact on individuals' earnings, but the negative impact of bonding social capital is stronger and more robust,
- social trust and trustworthiness robustly increase individuals' earnings,
- both bridging and bonding social capital exert a robust, strong positive impact on individuals' well-being,
- social trust increases individual well-being, but trustworthiness decreases it,

- earnings per person in the household have a positive impact on well-being, but controlling for them, employment status does not add any additional effects,
- strong positive impacts on earnings and subjective well-being are observed for people in stable relationships, and those who experience freedom of choice and control over their actions.

Keywords: bridging social capital, bonding social capital, social trust, CEE countries, earnings, subjective well-being