

# Social capital as an economic phenomenon

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## SUMMARY

*Research is devoted to the study of the phenomenon of the social capital as an economic phenomenon. The author's definition of the social capital is given, the sources of its formation are investigated, the approaches to the formation mechanisms of the potential of the social capital at different levels of the national economy are developed, a set of the social capital produced by the direct and indirect effects is investigated. The theoretical foundations of quantifying the value of the social capital are laid.*

**Key words:** *the social capital, the sources of the formation of the social capital, the potential of the social capital, social networks, the mechanism of the implementation of the social capital.*

## REZUMAT

*Cercetarea este dedicat  studiului fenomenului capitalului social ca un fenomen economic. Este dat  defini ia autorului pentru capitalul social, sunt investigate sursele de formare a acestuia, sunt dezvoltate abord rile privind mecanismele de formare a poten ialului capitalului social la diferite niveluri ale economiei na ionale, este cercetat un grup al capitalului social produs de c tre efectele directe  i indirecte. Sunt stabilite fundamentele teoretice de cuantificare a valorii capitalului social.*

**Cuvinte-cheie:** *capitalul social, sursele de formare a capitalului social, poten ialul capitalului social, re elele sociale, mecanismul de punere  n aplicare a capitalului social.*

**Formulation of the problem.** The difficulty of defining the essence of the social capital (SC) is associated with the current lack of the common understanding of the term "capital" in the economic science. Generalized semantic content is reduced to the treatment of capital as good in general, contributing to an increase of good things, and the capital is not necessarily in favor in kind. The main feature of the capital is to generate income to the owner. In neoclassical economics understanding the capital as a resource to be invested in order to profit is the dominant concept that in its time was the cause of the economic analysis of categories of "human capital", "intellectual capital", "organizational capital", "consumer / client capital" and

which corresponds to the modern theory of social capital.

A comparison of the basic properties of the physical, intellectual, human and social capital, select the generic criterion of capital: capital is the accumulated stock of wealth previously produced. Capital determines the cost of production and profitability. In accordance with these characteristics, the SC, along with the physical, intellectual and human, is a form of economic capital.

The general properties characteristic of all of these forms of capital are limitation, the ability to invest in anticipation of future income, self-expansion of value, the ability to create good, participate in the formation of value, liquidity, ability to convert.

At the same time, there are a number of features of various forms of capital. The differences lie in the essential content, which affects the incarnation, natural essence, transferability, specificity of formation, changes in consumption and methods of measurement. For example, physical capital has a material nature and values and embodied in the material, human and intellectual capital combines tangible and intangible nature, and embodied in individuals and property, the SC has an immaterial nature, embodied in the structure of relationships between people.

From the point of view of a particular embodiment, physical capital is totally alienated, intellectual and social – is partially transferable, and human capital is not alienated. For the same reason, the physical features of the formation of capital is to convert the materials forming the intellectual capital and human – to convert individuals and formation SC – in transforming relations between individuals. During the consumption of physical capital is not consumed, but wears out, unlike the other three forms of capital which have the property of self-expansion during consumption. The ability to measure is fundamentally different, if physical capital is estimated primarily based on past investment in quantitative terms; all other forms of capital are estimated on the basis of past investments and on the basis of future earnings, with both quantitative and qualitative terms.

Focusing on the SC, we distinguish following its characteristic properties. The SC, on the one hand, meets most of the characteristics of the economic capital, on the other hand – has distinctive features. So, having in its content structure and quality of informal networks, it is embodied in the relationship between people, it is a limited good, it is of the immaterial nature, it is partly due to alienate the opportunity to sell and is not a property of the subject using it. Its formation is based on the relationship of economic agents, social and communication activities related to

the achievement of economic goals. Investments in the SC finance, time, efforts, in anticipation of future income, are complicated with quantitative assessment. In the process of consumption the SC is multiplied (increased amount, frequency of connections, complicated network). As the capital, it can be used, destroyed, preserved or enhanced. The SC contributes to the production cost by increasing the return on other resources (land, labor, capital, entrepreneurial factor), thus tends to accumulate and supply and the process is: a man with extensive ties actualizes casual dating in stable relationships, that is in the SC. Specific benefits are generated by the SC: they may be tangible and intangible (including, public goods may be created). The SC has the lowest out of all forms of capital liquidity (because it can not be traded individuals on the open market), but can be converted to all other forms of capital: the productive nature of the SC can make up for the shortage of other forms of capital (a property of the substitution of other factors of the production). It should be noted that due to the possibility of conversion, the SC may become a factor of the unequal distribution of income in society, which is a manifestation of its negative, but shows its economic nature. The features of measurement methods consist in the fact that the SC is estimated at the same time: on the basis of past investments and on the basis of future earnings, both in quantitative and qualitative terms. At the same time, valuations can be expressed in the savings of transaction costs, the cost of substitutable factors of production; non-monetary valuations reflect qualitative characteristics (inclusion in the network, their properties, the level of confidence indicators and other mental values).

Availability in multiple forms, solid relationship of the three forms of capital – intellectual, human and social – results in the fact that the accumulation of intellectual capital is closely linked to the level of the SC. This knowledge is transmitted and accumulated

only where there are established relationships of ritualized gift giving; the underlying economics of prestige and quality of the transmitted knowledge depends on the level of trust in these relationships [1]. The SC contributes to the accumulation of human capital: an accumulation of experience is due to the interaction between people, proper human development.

At the same time, the level of intellectual capital contributes the development of the SC: with its unique knowledge and information, economic agents are able to quickly develop the socio-economic relations. Similar situation is with human capital: people with more advanced communicative, social competencies, with more experience and professionalism are able to form intense relationships.

Some researchers discover the relationship between the SC and the physical capital, arguing that most people associate the possibility of high returns are not with professional skills, and as with the will and determination, inclusion in social networks [2, p. 23].

Thus, the SC as an economic category is a blessing – both consumer and industrial. As good of manufacturing, it is a special kind of social resources, the involvement of which in turn contributes to the economic growth of added value.

An analysis of the semantic content of common definitions of the SC – in terms of identification with the other forms of capital, determine the nature, characteristics and conditions of the formation, implementation mechanisms, the effects of the operation – makes it possible to fix the ambiguity in its interpretation of the social capital at display some similarities.

Thus, the identification of the SC with social networks, norms, rules, values, trust, etc., do not actually acts defining the essence of this phenomenon, but merely points to the sources or factors of its formation.

Among the authors that produce the basic essence of social capital, there is unanim-

ity: the SC is called an asset, resource, a set of socio-economic relations, and the ability and so on.

The reference, in determining the SC, the effects produced with it (contributes to a more efficient economic activity of subjects facilitates certain actions of individuals, gives rise to the action, etc.), do not show the phenomenon in its pure form. In addition, most of the authors consider only the social effects of the SC, losing sight of those that can be attributed to the economic sphere – reducing transaction costs, contribution to the cost of production, social rent, the right to credit, etc.

Determining the nature of the mechanism of implementation of the SC is practically absent in the studies, which is seen by us as a lack of substantiation of definition.

It stands out as the following description of the process of implementation of the SC: the adherence to the norms and values, conscious and purposeful use of the sources of social capital, increasing the impact of other resources.

These contradictions sharpen the urgency of the problem of immersion into the essence of phenomena, understanding its inner content, separating the essence from the sources, the definition of a mechanism for implementing, more precise identification of the economic effects of the SC.

***The analysis of recent research and publications.*** Background concept of the formation of the concept of the SC is associated with the release of the subjective component of social and economic relations. These ideas are incorporated in the work of classical economic theory of Adam Smith, K. Marx, K. Menger, A. de Tocqueville, Herbert Spencer, E. Durkheim. Among the Russian-speaking scientists we can distinguish N. Berdjaev, A. Herzen, M. Tugan-Baranowski. The study of different forms of capital is typical of the neoclassical theory of the historical school, economic sociology, which can be traced in the works of G. Becker [3], M. Weber [4], M.

S. Granovetter [5], T. Schultz [6] and other. Formulation of the main provisions of the theory of the social capital is associated with the names of scholars such as P. Bourdieu [7], J. S. Coleman [8], G. Loury [9], R. Putnam [10], J. Sealy and L. Hanifan [11].

Modern foreign scientists A. Inkeles, G. Kulinich, M. Smith adhere to the neoclassical approach, explaining the nature of the social capital of individual utility maximization of people in interaction with each other.

D. Redzhepagich, P. Stubbs approaches to the study of the social capital from the standpoint of local communities, explaining the provision of the additional competitive advantages.

As part of the institutional approach the study of social capital based on the study of the properties of social networks due to the state of the institutional environment. This approach is used by R. Burt [12], S. Knack [13] and other researchers.

The social capital is actively studied by foreign sociologists: R. Inglehart [14], T. Claridge [15], J. Nahapiet [16], P. Paxton [17], A. Portes [18], R. Rose [19].

***The formulation of the purpose of the article.*** The aim of this publication is the definition of the nature of the social capital – active system of relations between the economic entities, which directly contributes to increasing income, quality of life, the creation of public goods at various levels of the national economy, the factors of its formation, the mechanism of the implementation and the identification of the effects of exposure.

***Statement of the basic material.*** An integrated approach to the study of the nature of the SC allows us to formulate the definition of this category in view of the economic characteristics of a multidisciplinary approach.

The SC is intangible economic good, which is a network of potential and existing social and economic relations, based on informal, appropriate, conscious, trusting interaction of economic agents, which provides access to resources and establishes

general rules for the behavior of the interacting parties, all of which reduce transaction costs, ensure compliance and results in an effective coordinated action of economic agents. The SC is a part of the institutional environment, its formation is due to the social and communicative activities of the economic agents, and it is determined by socio-cultural context and laid down the potential of the social interaction of individual economic agents.

The SC, as an economic category, is characterized by the following essential features:

- has an impact on forms of the economic behavior, if necessary, to dispose of scarce resources for the realization of the needs of people – hence, the subject of economic theory;
- it is a mean to meet the needs – hence, it is a boon;
- it is in itself a way to meet both social and industrial needs - hence social capital – is consumer goods and production resources.

The formation of SC is associated with socio-economic relations, social resources (the place of the individual in the social institutions, the level of his influence and connections, inadequate understanding of the cultural values and norms of signals, social contacts margin of economic agent), recognized standards, values, understanding and trust.

In the process of socialization personality develops its social potential, “social resources” are embedded in human social interaction potential, its involvement in a particular social environment. Thus, social potential is seen as a system of elements that directly determine social activity of the individual and social opportunities for its significant results in different areas of social life – employment, intellectual, social, political, cultural, spiritual and so on. Social resources are determined by individual social status and its membership in a particular social group, education, participation in voluntary activity, etc.

Communication and social networks are

the instruments of the development of the social resources of the individual act. Communication is an integral part of daily life of individuals through which information is interaction, which expands or reduces the possibility of mutual understanding and cooperation. Social network relationship is a form of social interaction when the subjects have stable relationship to each other and cause a reaction from the partner.

An important component of communication and social relationships is trust. As an independent socio-psychological phenomenon, trust performs basic functions in life (acting by a coherent human interaction with the world, performs the function of man's connection with the world in a single system, promotes human perception merging past, present and future in a holistic act, has the effect of integrity of the human being, contributes to effect of the integrity of the individual, through the trust established measure compliance behavior, decision, goals, tasks as world and himself).

The distinctive structure that promotes social potential of the individual is the whole social space – a set of latent connections that form the space of external positions to each other.

The set of social resources of the individual in the process of integration of many social interactions based on trust form social potential of the society, which is one of the important factors of influence on other areas of human activity, including economic and political.

The SC, as a form of manifestation of economic capital, is a resource to be invested in order to profit at the same time it is the accumulated stock of earlier manufactured goods. To investigate the sources of the formation it is important to distinguish not only features of the SC compared to the physical, intellectual and human capital, but the conversion feature of the latter into the SC.

Summarizing the research process of the formation of the SC, we may note that it is

formed with the institutional environment and it is a part of the institutional environment itself. Its development in general is based on social-communicative activity of economic agents about the production, distribution, exchange and consumption of goods. As a source of the formation of the SC, the incorporated potential social and communicative interaction of the individual acts, which is later determined with the social sphere. Its influence on the formation of the social capital is realized through the influence of various kinds of institutions.

The mechanism of implementation of the social capital is the process of converting the existing and potential socio-economic ties directly into tangible economic benefits. At the same time the relationship between economic agents acquires the following characteristics: informal (use of social capital is not fixed by formal regulations); expediency (communication helps to achieve certain economic objectives); consciousness (the entity is aware that he uses social capital); relationships are of confidential nature. Motivation that urges parties rely on trust, is the desire to take advantage as compared to the formal agreements. In this sense, we can say that the social capital will occur in cases where the transaction costs of the formal cooperation would exceed the transaction costs of maintaining the social capital.

In fact, the mechanism for the implementation of the social capital for the transformation of social relationships in the channels through which runs three main elements: the resources (including information); the general rules of interpretation of information; patterns of behavior. As a result, the social capital forms a kind of infrastructure and economic relations through the creation of conditions for the interconnection of economic agents and to provide basis for the functioning of economy.

The processes that take place during the implementation of social capital have their



results. According to three directions of the process of the implementation of the social capital, there are three main outcomes: access to resources; access to information; consolidation of the general rules of interpretation of information and patterns of behavior by informal coercion respect the rules, thereby reducing the risk of opportunistic behavior of economic agents.

Thus, as a result of the functioning of the organizational-economic mechanism of functioning of the social capital, mobilization of resources interacting entities occurs, timely economic activity is provided, transaction costs are reduced, the behavior of people in compliance with its rules is formed. In this sense, the implementation of the social capital can be explained by the phenomenon of the unequal, *ceteris paribus*, the impact of actions of economic agents; it has different volume, which confirms the effectiveness of the principle of heterogeneity of agents and uneven development.

As a result, the effectiveness of economic coordination increases, that is, the efficiency of traffic control economic benefits, traffic information, the behavior of economic agents by ensuring the unity of meaning of activities and interpretation of information, lower costs of adaptation to changing conditions, the actualization of an alternative mechanism of compensation (insurance) risks. These consequences are the basis for the creation of synergies, as a result of the efficiency of economic activity increases many times, contributing to better meet the needs of economic agents.

The synthesis of the immediate results of

the social capital leads to the identification of its main effects.

Further specification of the effects of the social capital associated with them have been identified for each of the levels of their functioning in the national economy (nano-, micro-, meso- and macro-) and their division into direct and indirect [20].

**Conclusions.** The process of the implementation of the SC is consistently controlled transformation of existing and potential social networking directly into economic benefits. The interaction of the economic agents is characterized by informal, expediency, conscientiousness, confidence. The mechanism of functioning reflects the main directions of the SC: access to productive resources, access to information and binding rules and rules of conduct. During the implementation of the SC each direction produces a specific direct effect: mobilizes the necessary resources to reduce the degree of uncertainty and generates a pattern of behavior, all of which leads to a reduction of transaction costs, uncertainty and risks of opportunistic behavior and a number of other, specific to each level of the implementation, effects.

In the course of further research on the impact of the SC on relationships in the socio-economic relations, indirect effects of its implementation are identified. The cumulative effects of the implementation of the SC provide growth of the satisfaction of needs of each of the levels. The satisfaction of needs, in turn, affects the interaction of economic agents about the production, distribution, exchange and consumption of goods, stimulate the further development of the SC.

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