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Social Capital and Cooperation in Central and Eastern Europe
Toward An Analytical Framework

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Abstract

The transition process in central and eastern Europe (CEE) had a profound effect on how individuals interact. Economic and social institutions have changed, requiring an adaptation process by individuals in the move toward a market economy. How each individual accesses, manipulates and uses their networks will determine the use of their social capital. Within CEE, there is a presumption of low levels of social capital. This paper was written as a conceptual framework for a research project entitled 'Integrated Development of Agricultural and Rural Institutions' (IDARI) in CEE countries. The paper exposes the emergence and maintenance of cooperative behaviour in light of rural restructuring and institutional change in CEE. A link exists between social capital formation and cooperation amongst individuals, as both concepts imply social interaction and the formation of trust. This paper questions the rationale of applying the contested 'western' concept of social capital to CEE countries. Social networks and use of those networks (social capital) is becoming more important in light of accession to the EU, particularly when opportunities within and access to rural and regional development programmes are dependent on existing networks. Social capital is seen as a dynamic entity, a form of institutional change, which leads to innovation in governance. Thus social capital provides a powerful explanatory tool for processes of institutional change.

JEL Classifications: Z13; D7

1. Introduction

In central and eastern Europe (CEE) the processes of institutional change have resulted from external shocks, imposed by political regimes and sudden regime changes over the last sixty years. The socialist regimes and centrally planned economies changed the social fabric of CEE, and resulted in particular types of behaviour between individuals. Most notably, was the effect on interpersonal trust, which resulted in complex trust patterns (both high and low

levels) between individuals and groups of individuals. Within both economic and sociological theory, a person's institutional endowment is acknowledged, and part of that endowment originates in social ties or communities of association. This has been termed social capital, and relates to the extent that individuals benefit from their personal networks and communities of association (Bourdieu, 1986). Trust is a central component of social capital, as it determines the strength of these social ties. Given that patterns of interpersonal association and social networks have been influenced by changing political regimes in CEE, the role of social capital as an explanatory factor for economic and social behaviour will differ from other countries who have not experienced a socialist state, with its central planning and control over social structures. The social context is important for understanding processes of cooperation in CEE, as the interactions between people have further been influenced in the last fifteen years by the democratisation of the political sphere and with the transition process from a planned to a market-oriented economy. The change in formal institutions, in particular legislation relating to property rights and market exchange, reverberated and effected the informal institutions. With accession to the EU of ten of the CEECs in 2004, further changes were experienced, requiring adaptation to the EU's acquis communautaire. From an economic viewpoint, social capital recognises value in social relationships, which can have market benefits. How this social capital manifests and is used is within CEE requires further elaboration, and is the subject of this paper, which has been written within the context of an EU project entitled Integrated Development of Agricultural and Rural Institutions' (IDARI)¹. To undertake research into social capital processes, a specific framework is required, which is

¹ IDARI is financed under the European Commission's FP5: Quality of Life and Management of Living Resources, Key Action 5 (QLRT-2001- 02718). For further information see <http://www.idari.ie/>. The IDARI research project focuses on learning, innovation and institutional change in rural CEE. The element of 'integrated development' relates to the integration of institutional economic theories, while the project employs empirical evidence of multilateral actors and stakeholders integrating their actions for a common purpose in different rural settings of CEE.

The concept of social capital has universal appeal, despite variations in its measurement according to the particular context. This paper advocates how the concept of social capital can be adapted as a framework for analysing situations on a micro-level, with particular application in rural CEE. In particular, three categories of social capital are critiqued as relevant to CEE, based on: a) rational choice theory; b) civic engagement and voluntary activity; and c) network theory (section 2). The interpretation of social capital as networks of cooperation, dependent on trust and reciprocity is advocated (Ostrom, 2000), and considered the most appropriate for exploring social processes in CEE.

Social capital has manifested itself from the discipline of sociology into everyday language², and Bowles (1999) argues that it has gained credence within economics as it conveys ideas that were missing in neoclassical economic thought. It forms a counter-argument against the idea that well-defined property rights and competitive markets can successfully harness selfish (individualistic) motives to public ends, so as to make civic virtue unnecessary. This latter point should be borne in mind in any analysis of transition economies, where there has been an overhaul of property right regimes, with a trend toward privatisation of rights. Social capital is important to overcome certain market failures in the provision of local public goods and many types of insurance.

It is argued that a micro-level approach to social capital overcomes the methodological problems associated with its measurement, in particular due to the cultural sensitivities of the term (section 3). Therefore in-depth case studies of networks of interaction are appropriate and a specific analytical approach is required (section 4). In this paper social capital is not considered an institution in itself, but how it is used is subject to institutional analysis – relating to the rules governing social interactions between individuals.

² For a comprehensive discussion and overview of the evolution of the social capital concept, see Hazleton & Kennan (2000); Portes, (2000), Castles (2003).

2. Approaches to Social Capital

The rational choice approach is based on the strategies used by individuals to interact with one another, while dependent on calculated trust of that interaction. This approach has its formulation in economic game theory analysis. The network approach is a more sociological approach to social capital, as it affirms the importance of embeddedness and allows for a discussion of power structures within society. The civic association approach lies somewhere inbetween these two approaches, as the concept of trust (both interpersonal and formal institutional trust) is used, as is the connectivity of individuals to their social arenas. The social relationship between individuals is important, as it allows access to resources and also affects the governance of resources. The structural dimension of social capital has been identified within the literature. Structure relates to position within a network, and affects access to other individuals and ultimately conditions the use of social capital (Hazleton & Keenan, 2000). The question arises over the choice or inheritance of social networks. An individual's position within a network can be embedded, yet not through their own choice. Much of the literature within sociology analyses institutional embeddedness and constraint due to inheritance, or from an evolutionary perspective without necessarily including the individual's choice of association (Flap, 2002). However, although individuals are born into and become socialised into an existing social network, at some point each individual has a choice to change or modify their networks. Thus the behavioural attributes and motivations are important. Rational choice theory allows for such conscious decision making. However, networks are constantly changing and evolving, and this is the challenge for designing a relevant research framework. Figure 2 below shows the three categories of social capital, with their main tenets. Studies of network structures assume causality between actions and actors involved with a network (Bourdieu, 1986; Flap, 2002). Embeddedness matters (Granovetter, 1985) and networks provide opportunities for individuals to exploit resources which social

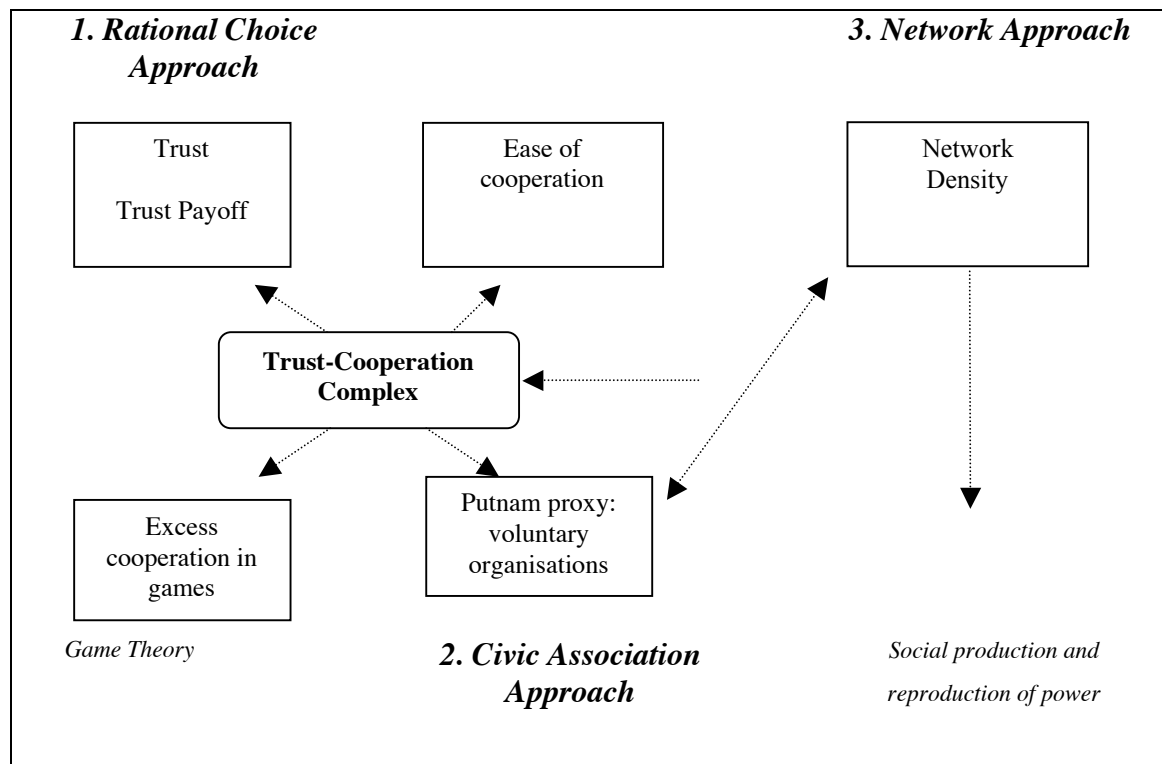


Figure 2: Three categories of social capital concepts Based on Paldam (2000:630), author's addition in italics

relations give access to. However, many of the empirical studies on social capital tend to focus specifically on the Putnam proxy (civic engagement), while ignoring network structures and the rational choice of actors (calculated trust). Integrating these three definitions of social capital integrates the formulation of the concept between the differing sociological and economic foundations of the term (Mateju, 2002; Mihaylova, 2004a) and it allows for an analysis based on rational choice while including social esteem and power structures which lead to social reproduction and inequality.

3. The relevance of social capital in CEE

Paldam & Svendsen (2000) have termed the situation in post-communist countries as displaying 'missing social capital' from the western context within which the term was conceived. However there are definitional and methodological issues relating to conceptualising and measurement techniques of social capital itself, which are exacerbated by the path-dependent social structures in CEE (Kyriazis, 2005). Critics have argued that transposing the western construct of social capital to post socialist contexts is biased, and

ignores the existing social realities in these countries (Dowley & Silver, 2002), where complex social forces result in various forms of emerging networks, differing levels of interpersonal trust among actors and oftentimes low trust levels in formal institutions. The institutions are shaped by the experiences during former socialist times, which comparative studies use merely as explanatory factors. Studies revealing low levels of social capital³ mask many social processes that are not encapsulated by the measurement techniques of the comparative studies.

Whether people are predisposed to form relationships with one another depends on social norms and the prevailing social structure. Within CEE, the presumption of low levels of social capital is explained in the literature by such forces as: an increase in general mistrust brought about by experiences within a planned economy (Swain, 2000); the dictatorship theory of missing social capital (Paldam & Svendsen, 2000) which eroded or destroyed voluntary cooperative engagement, and when individuals associated their political leaders with corruption and merely having self-serving interests; an increase in mistrust brought about by the ‘grabbing’ strategies of certain individuals in the early transition period; or a high reliance on family and kinship networks in countries with ‘weak’ formal institutions (Theesfeld, 2004). All these factors impose constraints on the formation of social capital in the post-communist states as measured using conventional techniques (Murray, 2005).

3.1 Rational Choice and social capital in Central and Eastern Europe

Coleman (1988) is credited as basing social capital on methodological individualistic foundations. Methodological individualism and equilibrium strategies of game theory are used within rational choice theory for enforcing group norms, due to the collective benefits of cooperation and potential stream of future benefits. Within this emerging theoretical

³ See Mihaylova (2004a) for a comprehensive review of social capital research undertaken in CEE and Russia; Comparative international studies on stocks of social capital in CEE have been undertaken within the EBRD by Raiser et al (2001); by the OECD (2001) including Healy (2001); and by Fidrumuc & Gerxhani (2004).

literature, the role of trust is pivotal for designing individual strategies. Trust alleviates the concern for being mistreated, and it also suppresses an individuals' own opportunistic behaviour. Although there are many different levels and taxonomies of trust⁴ Paldam & Svendsen (2000) argue that a trust definition of social capital is the most basic. They define it as the density of trust existing within a localised group/network, which then can be extended to the whole of society. Three levels of trust are specified: personal trust (informal governance), general trust among strangers and institutional trust (formal governance).

There are complex and differing levels of trust patterns emerging in CEE, with low levels of trust in one sphere offset by high levels of trust in others. In addition to the importance of trust in social relations and interactions (informal), trust is recognised as the basis for commercial contracts and agreements between people. The expectations of instituting levels of trust in markets can be seen as a 'leap of faith' for many individuals, as they move from relatively closed trust networks (such as family and friends) to more open general trust of strangers with whom they interact (Cook *et al*, 2004) given that experiences in former socialist times led to a climate of fear and mistrust of the State and its apparatus for many individuals⁵. In a study of small enterprises and private firms in 26 transition countries, Raiser *et al* (2004) examined generalised trust in business transactions, based on the contracting environment within these countries. They found that trust increases as reforms progress within the countries. It would be expected that trust would increase over time also, once relationships are established between individuals in a market setting. Indeed the idea of economic progress can be seen as a move away from reliance (trust) in family and informal networks to more generalised trust. However, high informal trust in family and close friends was a coping mechanism for many people during socialist times, and such institutions do not

⁴ For example, see Nooteboom (2002:50) who identifies seven forms of trust.

⁵ Lovell (2001) critiques how the Communist system paradoxically destroyed trust between people and government; and between people themselves, while attempting to establish a community based on mutual trust. Official hypocrisy, corruption, secret police surveillance and the suppression of meaningful citizen participation jeopardised trust.

simply disappear with changes in the political and economic regimes. Such comparative surveys do not capture levels of informal trust between individuals, as more detailed information on networks is required.

3.2 Civic engagement in Central and Eastern Europe

Emphasis on civic engagement of actors has dominated studies in social capital, partly because the development of an indicator for its empirical measurement - the 'Putnam' proxy (Putnam, 1993), and the recognition that civic engagement is essential for cooperative behaviour. A civic community is one marked by 1) active participation in public affairs; 2) political equality; 3) solidarity, trust and tolerance; and 4) widespread membership in voluntary associations (Kunioka & Woller, 1999). Within CEE, ability to participate in public affairs and political equality has been introduced only in the last 15 years. During socialist times, the authoritarian politics dominated economic activity and attempted to control activities in the social sphere. How the public institutions are organised now is important for explaining social capital in CEE. However, the extent to which there is effective and/or meaningful democratic participation in any country, beyond access to polling stations during elections, can be questioned. Based on recent studies in CEE, there is evidence that citizens support the new democratic regimes, and on the whole prefer them to the communist regimes that they replaced (Mishler & Rose, 1997). However this does not guarantee immediate active participation in civic affairs by citizens. From a study of trust in post-communist Europe undertaken by Miller *et al* (1998), it was concluded that low levels of trust prevailed in the new political institutions of democracy. In particular there was distrust and cynicism for politicians. By contrast, trust 'in ordinary people' was high and uniform across most countries within the survey, but again, it does not systematically ensure high levels of civic engagement.

Out of all the components in the Putnam proxy measurement of social capital, caution is warranted in over-reliance on measurement of participation in voluntary organisations in CEE. This is not to deny that it is through this process that norms are learned and shared among actors and communities. These include solidarity, trust and tolerance, which are all strengthened through repeated experiences of social interaction. However, with lower income levels in CEE, the opportunity cost of time may be too great to spend on community or social activities, or there may not be opportunities for people to engage in certain social activities that are considered ‘conducive’ to social capital – for example involvement in charitable organisations or sports clubs. Therefore from a methodological viewpoint, attempts should be made to elucidate the more indiscernible indicators where informal community networks enhance altruism and trust, which is the main attraction of the network approach to social capital.

3.3 Network formation in CEE

Networks are present wherever individuals engage with one another. This occurs both within social and political settings, and also within economic exchanges. Indeed markets have been analysed purely in terms of networks of actors (White, 2002; Hurrelmann, 2004) rather than the traditional view of them as physical or tangible entities. In CEE networks are constantly changing, as their functions change. In former socialist times, being connected to the Communist party or political networks gave opportunities to access privileged resources. Informal and family networks were also important, especially when goods and services were produced within the household. This reliance on family and friends may hinder the effective functioning of market mechanisms, or it could result in the creation of black markets, and thus is considered pervasive to economic growth (Mateju, 2002). But within these informal networks, social capital is present – the individuals trust the network within which they operate and benefit from their association with the network. Paldam & Svensen (2000) argue

that during socialist times, the 'system' tolerated and even needed grey/black networks. These shady networks did not disappear during the transition phase, and are evident in some CEECs.

The emergence of new markets during the transition process enabled some individuals to adapt and benefit from these new opportunities. With respect to rural areas this network aspect has been studied in relation to cooperative farms and privatisation of agricultural land in the 1990s. The results of these political and social changes had mixed results. Gatzweiler & Hagedorn (2001) showed that certain cooperative managers fared well in the transition period due to the good business practices learnt from the cooperatives and collective farms, and having information due to their position. Networks persisted, and Swain (2000) demonstrated the endurance of networks and collective identities of the rural population using evidence from cooperatives in Hungary. This was due to benefits of sharing resources in agricultural production, and it was rational for the farmers to continue to work together. Networks provide a mechanism for transmitting information and knowledge amongst its members. Thus how the group of individuals communicate with one another, and also how they communicate out-with the network needs to be understood. The following section introduces a framework within which research into social capital can be operationalised for the CEE context. It begins from a simplistic discussion introducing key terms developed within rational choice theory, looking at cooperative behaviour. However, as complexity is increased with the formation of a group or network, the simplistic models become problematic. To cater for this network perspective Ostrom's (1998 & 2000) institutional and development framework model is endorsed.

4. Integrating approaches - Cooperation and Social Capital

Cooperation between individuals is evident when there is visible action on a collective level (many stakeholders) for a predetermined goal (problem solving). Brehm & Rahn (1997) argue that all human communities confront collective action problems. Collectively, societies are

better off when their members cooperate with one another to achieve common goals. Bowles and Gintis (2002) suggest use of the term ‘community governance’, for collective action problem solving, and view it as an efficient mechanism for ordering societal relationships, largely because the market or State does not have complete private or localised information. An effective community monitors the behaviour of the individuals within, making them accountable for their actions and punishing those individuals who deviate from social norms. Individuals, however, face incentives to behave selfishly, seeking the benefits of cooperation without contributing to the process. As stated previously, sociologists, economists and political scientists converge on the concept of social capital to explain why certain groups and communities are able to resolve collective action problems cooperatively, while others are not able. Annen (2002:450) contends that networks of personalised relationships are characterised by low enforcement costs, due to reputation, which leads to cooperative behaviour.

Within rational choice theory, the mechanism that connects interpersonal trust, repeated interaction with others, and sustained cooperation has its roots in research on the prisoners’ dilemma. In single shot prisoners’ dilemma games, trusting individuals cooperate more readily. In repeated prisoner dilemma games, after the first play, successful strategies simply echo the behaviour of the other behaviour (tit-for-tat strategies).

4.2 An Analytical Approach - Cooperation and Game Theory

This section extends the prisoners’ dilemma to more complex situations. Social dilemma refers to situations in which individuals make independent choices in an interdependent situation and is analysed in terms of rational choice, where each individual has a choice of contributing or not contributing to a joint benefit, or a *cooperators’ dividend*. Ostrom (2000) emphasised that trust and reputation also lead to cooperation or framing the governance structure in such a way that benefit the collectivity. Rule breakers are sanctioned by the

community or group (Bowles & Gintis, 2002). Consequently, exchanging mutual commitment, increasing trust, creating and reinforcing norms and developing a group identity appear to be the most important processes that make communication effective (Ostrom, 2000). Ostrom's (2000) framework is important, as it stresses the importance of communication amongst individuals, which is also central to collective action problems. In a social dilemma, self-interested individuals are expected to use communication to try to convince others to cooperate and promise cooperative action. From experiments on face-to-face communication, there was evidence of substantial increases in levels of cooperation (Ostrom, 2000:483). It can be concluded that communication increases the rate of cooperation, and during the communication process, social capital is enhanced or eroded. Communication does not spontaneously result in a governance structure, but it is required to internalise the set of rules for each individual – to internalise the governance structure.

Annen (2002:451) stresses the importance of a person's reputation for being cooperative. Each player not only has to behave cooperatively, but others have to know that this is the case. All actors must know the trustworthiness of each player. He argues that the functional quality of social capital is to sustain cooperation amongst players in the network, and that social capital can thus be seen as a governance structure. Reciprocity is all important, and enables application of the models to real life complex situations. Applying the concept of reciprocity to the situation in CEE, the most important element constraining the formation of social capital is the relationship between the individual and the State. If past experiences with the socialist bureaucracy has damaged an individual's trust in the State, the mistrust may be difficult to overcome. Reciprocity is an especially important class of norms for Ostrom (2000:489), with the characteristic that individuals tend to react to the positive actions of others with positive responses and negative actions of others with negative responses. Reciprocity is a basic norm taught in all societies, and there is a need to use retribution to

punish a defecting player. Individuals do not inherit particular reciprocity norms via a biological process. The argument from Ostrom is more strategic - individuals inherit acute sensitivity for learning norms that increase their own long-term benefits when confronting social dilemmas with others who have learned and value similar norms.

Lubell and Scholz (2001) develop a behavioural theory of collective action by exploring the behavioural relevance of reciprocity and niceness in explaining cooperation from subjects, although in laboratory collective action experiments. They argue the collective action strategies of individuals are best understood in terms of cognitive heuristics that generate them. The set of heuristics in a given society represent specialised cognitive mechanisms for solving social dilemma problems, which they believe are an ancient and central part of human society. They suggest that heuristics are biased in favour of cooperation: individuals gain some of the potential advantage of reciprocity while protecting against exploitation. This can be seen as a constrained experiential learning process. This learning process is important. Given the evolutionary advantage of a *tit-for-tat* strategy, it could be tempting to argue that society dominated by nice, reciprocal individuals could evolve over time. In such a society, cooperation would be the individually optimal choice; so as to ensure that the mutual benefits of cooperation are realised by each individual.

5. Conclusion

The paper has explored the relevance of social capital to CEE, from a conceptual and an operational basis. It argued that social capital is an important analytical concept for explaining social processes in CEE, and emphasised three categories of social capital with particular relevance to the situation in post-socialist rural areas. These three categories were based on a rational choice model, a civic engagement and voluntary organisation model, and on network theory. Through an integration of sociological and rational choice approaches, the concept of

social capital can be applied to CEE. However, care must be taken when operationalising the concept in empirical research. The preferred approach to empirical research would be through thorough investigation of small group/network processes for cooperation in CEE, to expose the relevance of interpersonal trust, reputation and reciprocity. Although the essence of social capital is as an aggregate concept, it has its basis in individual behaviour. The aggregation is on a group, community or network level given the interactions of individuals. In participating with their community in solving problems or social dilemmas, the individual creates a reputation. The models recognise bounded rationality, the influence of informal institutions (norms and values) and the effect of social learning on the process of cooperation.

Of particular importance in this model is the recognition of the communication structures affecting cooperation, as these also affect norms and social learning. By focusing on communication, the institutional setting within which this process occurs is clarified. It also allows for the concepts of trust, reciprocity and reputation to be explored, as causal effects on the communication process. A study of communication processes requires an analysis of the social framework influencing participation of actors in problem solving and rural development initiatives, thus taking a network approach to social capital. It allows for the integration of cognitive concepts - such as learning, language and shared mental models – into institutional theory. The frameworks presented in this paper can be described as a micro-level construction of social capital, where the composition and practices of local level interaction are the focus of analysis. Although the macro structures within a country or region affect levels of social capital – such as legislation, types of regimes, level of decentralisation and level of participation in policy making - the behavioural attributes of individuals requires further exposition. The assumption of macro structures in CEE affecting trust, reciprocity and communication between individuals, brought about by the legacy of socialism, should not be the only focus of studies in social capital formation. Rather, how communities adapt and

organise themselves within these macro structures through collective heurism is central to the investigation.

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