Discussion Paper BRIEFS

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Discussion Paper 135

Trust, Membership in Groups, and Household Welfare: Evidence From KwaZulu-Natal, South Africa

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Most agree that social interactions are at the core of the concept of *social capital,* and that such interactions can generate returns to those directly involved and, quite possibly, to others as well.

To date, economic studies examining social capital fall into two broad categories, the first focusing on the *sites* of social interaction, such as groups and networks. The studies focusing on groups typically use membership as a proxy for social capital and assess their association with measures of well-being such as income or expenditures. Studies examining networks measure the breadth and strength of network linkages and explore their relationship with profits. Another group of studies focuses more directly on the underlying mechanisms through which social capital is thought to work, examining the measurement and determinants of trust and the determinants of group participation.

Unfortunately, the two literatures are somewhat disconnected. The group and network literature concludes that participation has important economic benefits, but does not explain how groups and networks generate these benefits. The determinants of trust and group-participation literature underlines the importance of income and social homogeneity, but does not explain whether—and how—trust can be generated, in particular via participation in groups.

Purpose of This Paper

This paper explores the relationship between group membership and trust. Specifically, it examines the importance of (1) trust in the decision to join groups, (2) the subsequent ability of groups to generate trust, and (3) the influence of group membership *and* trust on a measure of well-being, per capita household income.

Trust in local agents is an important determinant of membership in financial groups, but does not matter for nonfinancial groups. Furthermore, membership in both types of groups generates trust in nonlocal agents and leads to higher well-being.

Defining Social Capital

The similarities between various definitions of social capital are much more striking than the differences. For instance, most researchers agree that individual social interactions are at its core, and nearly all agree that while social interactions take place at the individual level, social capital has the potential to generate externalities. In addition, nearly all acknowledge that the mechanisms that create social capital have to do with information transmission, establishment of trust, and development of norms of collaboration.

One way to get at an understanding of how social capital might function is to distinguish between the location of social interactions and the mechanisms that generate resource flows. These distinctions are critical, because often there is confusion between social capital itself and where it is being generated.

Ideally, one would link data on the social interaction locations, the mechanisms, and the externalities generated with welfare outcomes affected by those externalities. Unfortunately, it is rare to find data on all of these aspects together. Furthermore, even when such data are available, it is unlikely that one could convincingly identify and estimate more than one or two of the relationships at a time. This paper, therefore, focuses on one of the locations—groups—and one of the mechanisms—trust.

Social Capital in KwaZulu-Natal

Formed by combining the former Zulu homeland and the former Natal Province, KwaZulu-Natal is South Africa's largest province, containing one-fifth of the country's population of approximately 41 million. Some speculate that communities in KwaZulu-Natal came to distrust local governments under South Africa's apartheid policies, suspecting them of dividing communities through their plethora of sector-specific community committees. Further, during the mid-1980s and again in the early 1990s, KwaZulu-Natal suffered from substantial political unrest and violence, further eroding its social capital.

Sociological research has shed light on groups and trust in KwaZulu-Natal, indicating that in the increasingly cash-based economy of the 1990s, the most sought-after memberships were in savings and credit groups.

The Data

The South African national household survey, the Project for Statistics on Living Standards and Development, was undertaken in 1993. Households in KwaZulu-Natal were resurveyed in 1998 for the KwaZulu-Natal Income Dynamics Study (KIDS). The 1998 household questionnaire followed the 1993 version, with the addition of a new module on different dimensions of social capital, including group membership, personal networks, trust, civic engagement, and violence.

Using this data, the authors disaggregate groups into financial and nonfinancial and "trust in people" by type of agent or actor in order to examine whether different types of trust are important for participating in different types of groups and whether different types of group participation are important for generating different types of trust.

Results and Discussion

The results indicated that local trust in neighbors and extended family is important for financial-group participation, and that groups appear to be locations of social interactions that generate trust in nonlocal agents, such as strangers, the media, and national government. Furthermore, group membership, both financial and nonfinancial, is a determinant of per capita income. Treating group membership as a proxy for social capital suggests a positive effect for social capital, particularly in the case of nonfinancial-group membership where there are no explicit financial benefits envisioned. There is no evidence, however, that trust is contemporaneously important for income generation.

The role of trust in the decision to participate in groups is also consistent with the general characterization of financial groups as "achieved" (where membership requires a conscious decision to participate, often conditioned on trust) and nonfinancial groups as "bound" (where membership is linked to family or religion and has less to do with trust). The majority of the nonfinancial groups are religious in nature, i.e., groups for which it is logical that membership would rely less on trust, and this is what the authors find.

Group membership in 1993 (both financial and nonfinancial) generates trust in nonlocal agents in 1998. A possible mechanism underlying this result is that participation in groups might lead to greater engagement, and therefore familiarity, with the wider world. None of the group memberships, however, leads to higher scores on measures of local trust, such as in neighbors and local leaders, suggesting that these may represent a qualitatively different form of trust, generated via different processes or possibly even exogenously.

Trust in local agents in 1993 is important for financial-group membership in 1998, and financial-group membership in 1993 generates trust in nonlocal leaders in 1998. This suggests a conversion from local trust to generalized trust; financial groups may expand the "radius of trust."

Group membership in 1998 is important for income generation, but the effects of group membership on income do not rely only on trust. Instead, the effect of group membership may be operating through some other mechanisms as well—such as copying and pooling for generating knowledge about the world, reputation transmission for generating reliability about agents, or the establishment of norms and rules for prompting collective action.

The authors find that trust in neighbors or extended family in 1993 leads to increased membership in financial groups in 1998. They also find that increased financial-group membership in 1998 leads to increased income in 1998. Thus, they establish a link between trust in local agents in 1993 to income in 1998, via financial groups in 1998. Thus, they have begun to understand how returns to social capital by way of groups are generated: it all seems to start with high levels of trust in local agents (neighbors and extended family). Further research needs to identify the determinants of local agent trust once community-specific factors are taken into account.

Keywords: trust, social capital, South Africa

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