



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

# **Social Capital and Cooperation in Central and Eastern Europe – A Framework for Research on Governance**

Catherine Murray<sup>1</sup>

## **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 questions the rationale of applying the contested 'western' concept of social capital to CEE countries. It argues that although the concept was developed to understand processes within established democratic systems, it nevertheless is instrumental for analysing how trust is formed, and for understanding cooperation amongst individuals. As such, this framework reconciles literature from sociological and economic disciplines and offers a comprehensive framework for the analysis of social capital on a micro level. This involves positing social capital within a game theoretic framework, while including social learning or heuristics. This is particularly important due to the path dependent social structures and institutions, given political changes in these countries in the last century. Social capital is seen as a dynamic entity, a form of institutional change, which leads to innovation in the existing governance structures.

**Keywords:** cooperation, social capital, governance

1 Dr. Catherine Murray, (Humboldt University of Berlin). Tel: +64 9238 2955. Email: [Catherine.murray@arc.govt.nz](mailto:Catherine.murray@arc.govt.nz) The author acknowledges the financial support received from the project on Integrated Development of Agricultural and Rural Institutions (IDARI) implemented under a grant from the European Commission (Contract Nr QLRT-2001- 02718).

## Introduction

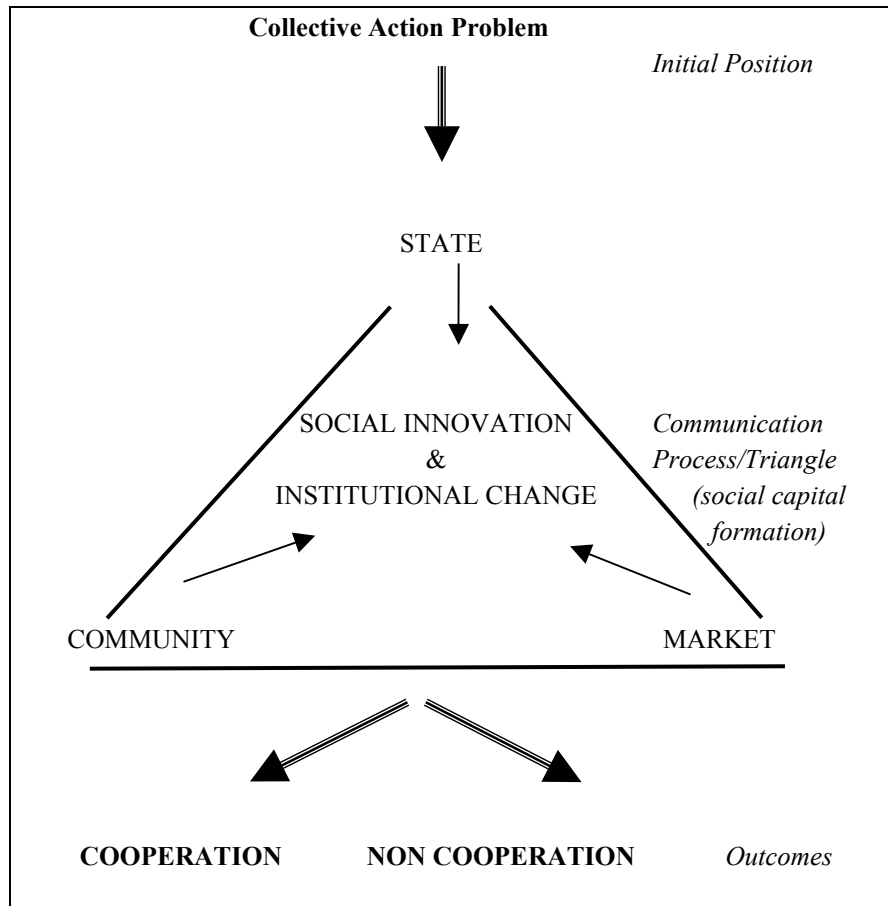
In central and eastern Europe (CEE) the processes of institutional change have resulted from external shocks, imposed by political regimes and sudden regime changes over the last sixty years. The socialist regimes and centrally planned economies changed the social fabric of CEE, and resulted in particular 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. The social context of trust formation is important for understanding processes of cooperation in CEE, due to central planning and control over social structures in former times. This was followed by the democratisation of the political sphere and the transition process from a planned to a market-oriented economy in the last fifteen years. The change in formal institutions, in particular legislation relating to property rights and market exchange, reverberated and effected the informal institutions, including trust and social capital.

Where groups of individuals cooperate, networks are formed, based around a shared problem. In the context of this paper, social capital enables an analysis of three sets of actors – the market, State and communities – all considered pivotal in rural CEE development. The paper exposes the role of market, State and communities in solving collective action problems, resulting in cooperation, non-cooperation or actual conflict between the actors (figure 1). It is during interactions, or communication between actors that social capital is formed.

When exposing behavioural attributes of actors leading to collective action, the role of informal institutions such as trust, communication, learning and behavioural norms become central. Indeed trust is seen as the basis for all transactions and contracts that individuals make, both within market and civil society. It is also a central component in measurements of social capital (Grootaert et al, 2004).

After reviewing the literature on social capital, this paper clarifies how it 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, based on: a) rational choice theory; b) civic engagement and voluntary activity; and c) network theory. The interpretation of social capital as networks of cooperation, dependent on trust and reciprocity is endorsed and

**Figure 1: Framework for analysing cooperation and communication within 3 arenas**



Ostrom's (2000b) framework elaborated and considered the most appropriate for exploring social processes in CEE. 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. Thus the cultural bias of applying a theoretical construct in CEEC, which was developed specifically to analyse social processes in western democratic countries, is overcome. This paper contributes to the literature on social capital as it offers a framework for research on a micro level.

## **Social Capital**

Social capital is seen as an indicator for the general health of a democratic market economy, with links established on a macro level between social capital and economic growth. Fukuyama (1995) suggests trusting societies have a common set of ethical principles and internalised norms, conducive to efficient dealings in the economic market. Similarly Putnam (1993:67) defined social capital as ‘the norms and networks of civil society that enable groups of individuals to cooperate for mutual benefit (and perhaps for broader social benefit) and may allow social institutions to perform more productively’. The Brehm & Rahn (1997) model of social capital is structured as a reciprocal relationship between civic engagement, interpersonal trust and confidence in government. The more that individuals participate in their communities, the more they learn to trust others; the greater trust that individuals hold for others, the more likely they are to participate with others, which in turn leads to civic participation with the State. Putnam (1993) is credited with operationalizing the above concept of social capital for empirical analysis. He saw it as being ‘embodied in forms such as civic and religious groups, bonds of family, informal community networks, kinship and friendship, and norms of reciprocity, volunteerism, altruism and trust’ (Putnam, 1993:67). His most acknowledged contribution to the theory is the proxy indicator that measured the density of voluntary organisations, termed the ‘Putnam instrument’. Social capital is in a particular position of an interdisciplinary debate. The concept has its roots in two main disciplines – sociology and economics<sup>2</sup>. Individual actions generate a social order, which can benefit a group, or result in a collective activity. Groups are comprised of individuals, who choose between institutions, while also being constrained by them. Social capital has transported itself from the discipline of sociology into everyday language, and it has gained credence within economics as it conveys ideas that were missing in neoclassical economic thought. Social capital is important to overcome certain market failures in the provision of local public goods and many types of insurance. However, negative aspects of social capital have also been identified. Portes (2000:15) identified four: the exclusion of outsiders from networks; excess claims on individuals who are network members (due to ‘free-riders’); restrictions on individual freedoms of those within the network; and downward levelling norms (in networks which are considered undesirable, or sub-optimal).

There is a need to move away from the macro debate on social capital to understand the processes that mould the formation and maintenance of trusting

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

relationships between people, while analysing how the State, organised groups or communities and markets contribute or hinder this process. This can be achieved through a network approach. Such an approach to social capital is not novel, as indeed Bourdieu's (1986) formulation of the concept was based on networks of interaction. Studies of network structures assume causality between actions and actors involved with a network (Flap, 2002). Location and position within the network is important, while the network itself provides opportunities for individuals to exploit resources which social 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, 2004) and it allows for an analysis based on rational choice while including social esteem and power structures which lead to social reproduction and inequality.

The rational choice approach is based on the strategies used by individuals to interact with one another. This approach has its formulation in economic game theory analysis, while specifically analysing games involving trust. The network approach is a sociological approach to social capital. It affirms the importance of embeddedness and allows for a discussion of power structures. The civic association approach lies somewhere in between 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 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. Certain 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, for whatever particular reason. Thus the behavioural attributes and motivations are important. Rational choice theory allows for such conscious decision making. Concurrently it makes the analysis of social networks difficult to operationalize. Networks are not static, but constantly evolving. This is the challenge for designing a research framework relevant to the economic and social realities in CEE. The following section looks at why social capital merits attention and further empirical elaboration with particular reference to CEE. The appropriateness of the three categories of social capital is discussed in light of its relevance to social dilemmas of collective action in CEE – the rational choice of

actors, the Putnam proxy of voluntary action, and network structures resulting in power and access to resources.

### **The relevance of social capital in CEE**

Given the links between social capital and a 'healthy' functioning of a market economy, the logical research agenda in testing social capital theory would appear to be to monitor the levels of social capital in countries that are moving from a planned economy to a more democratic market based one. Such macro exercises have been undertaken recently<sup>3</sup>. In a comparative study, Fidrumuc and Gerxhani (2004) reveal lower levels of social capital in CEE in comparison to western Europe and explain this by the economic disparities between the two regions. 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. Definitional and methodological issues relating to conceptualizing and measuring social capital are exacerbated by path-dependent social structures in CEE. Critics however 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 (Hann & Dunn, 1996; 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. This leaves the comparative international (macro) studies on social capital somewhat lacking. The social realities in CEE have been formed by prevailing local institutions. The institutions are path dependent, shaped by the experiences during former socialist times, which comparative studies use merely as explanatory factors. These studies revealing low levels of social capital 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

3 See Mihaylova (2004) 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 by the OECD (2001); Healy (2002); and by Fidrumuc & Gerxhani (2004).

brought about by the ‘grabbing’ strategies of certain individuals in the early transition period (Sik & Wellman, 1999); 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.

### **Rational Choice and social capital in CEE**

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 even at a cost to oneself, due to the collective benefits of cooperation and potential stream of future benefits. Within this emerging theoretical 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 trust<sup>4</sup> Paldam & Svendsen (2000) argue that a trust definition of social capital is the most basic. 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. Trust is recognised as the basis for commercial contracts and agreements between people. The role of trust has changed radically in the move to market based economies of CEE. Trust is required in the price mechanism within markets, in financial institutions, in new business partners (generalised trust) and fundamentally in the State (formal) and EU to uphold and protect the new property rights, which were central to the transition process. The expectations of instituting such levels of trust 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). The experiences in former socialist times led to a climate of fear and mistrust of the State and its apparatus for many individuals (Lovell, 2001). In a study of small enterprises and private firms, Raiser *et al* (2004) examined generalised trust in business transactions, based on

4 For example, see Nooteboom (2002:50) who identifies seven forms of trust: behavioural trust (in people), material trust (in objects), competence trust (in ability, skills, knowledge and technology), intentional trust (including dedication, benevolence and goodwill), conditional trust (outside enablers), exemplar trust (in role models) and informational trust (in honesty and truth).



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, or through 'repeat play' in game theoretical terms. Indeed the idea of economic progress and a move to a more modern structure of society 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 simply disappear. Another interesting finding from Raiser (2004) was that in countries where family networks play an important role, trust is significantly higher, whereas the opposite is the case in countries with significant reliance on networks based around government. Such comparative surveys do not capture levels of informal trust between individuals, as more detailed information on individual networks is required. It also should be stressed that trust is one component of social capital, and should not be treated as synonymous with it.

### **Civic engagement in CEE**

Emphasis on civic engagement of actors has dominated studies in social capital, partly due to the early development of an indicator for its empirical measurement (the 'Putnam' proxy), 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, authoritarian politics dominated economic activity and attempted to control activities in the social sphere. The public institutions are organised along democratic principles. 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 disputed. 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). This does not guarantee immediate active participation in civic affairs by citizens, and indeed the reverse is argued by Rothstein (2004:16) – that the particular type of State institution produces individuals and organisations with high (or low) levels of social trust. From a study of trust in post-communist Europe undertaken by Miller *et al* (1998), it was concluded that the countries were characterised by low levels of trust 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. This is one of the main attractions of the network approach to social capital.

### **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 a novel approach to analyse markets is 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 for some individuals to access privileged resources. Informal and family networks were also important, especially when certain goods and services were produced within the household. This reliance on family and friends may hinder the effective functioning of the new 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 or ‘grey’ networks, social capital is nevertheless present albeit in a negative form – the individuals trust the network within which they operate and benefit from their association with the network, in terms of access to resources (Rothstein, 2004). Paldam & Svendsen (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 prevalent in certain CEECs. The emergence of new markets during the transition process enabled some individuals to adapt and benefit from these new opportunities. 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 network can be used as a source of power by members in terms of limiting or denying membership to the network. From a methodological point of view, identification of the network members needs careful consideration.

Given the three approaches to social capital, and their relevance in CEEC, the following section introduces a game theoretic framework that can enable an exposition of the process of social capital formation and change. It begins from a simplistic discussion to introduce key terms developed within rational choice theory, looking at cooperative behaviour. However, as complexity is increased with an increase in the number of individuals 'playing' these cooperative games (group and network formation), the simplistic models become problematic. To cater for this network perspective Ostrom's (2000b) behavioural model is endorsed, and considered the most developed for structuring research into social capital. To operationalize her framework, a micro-level analysis of the dynamics of trust and social interaction is required.

### **Cooperation and Social Capital**

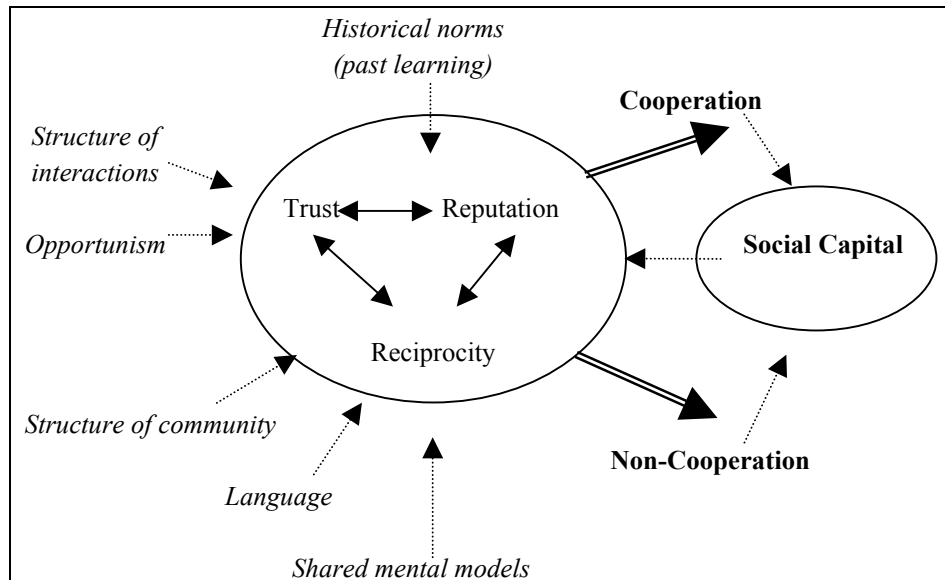
Cooperation between individuals is evident when there is visible action on a collective level (many stakeholders) for a predetermined goal (problem solving). All human communities confront collective action problems. Collectively, societies are better off when their members cooperate with one another to achieve common goals. Putnam (1993) makes the link between social capital and cooperation, and argues that cooperation is facilitated if a community has inherited a substantial stock of social capital in the form of norms of reciprocity and networks of civic engagement. Cooperation is a governance structure, or the 'play of the game' in game theoretic terms, where the game is one of social interaction between individuals bound by an identifiable common problem. From this perspective, cooperation is a strategy adopted for reducing transaction costs, or problem solving will be through the most efficient governance structure (community governance). Bowles and Gintis (2002:425) argue that 'communities often are capable of enforcing norms because a considerable fraction of members are willing to engage in the costly punishment of shirkers even when there is no reasonable expectation of being personally repaid for their efforts' and call this behaviour *strong reciprocity*. Such community governance enables a solution to social dilemma, in instances that might otherwise appear as classic market or State failures, 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. In contrast with States and markets, communities more effectively utilise the incentives that people have traditionally deployed to regulate their common activity such as trust, solidarity, reciprocity, reputation and personal pride amongst others.

Social capital can explain why certain groups and communities are able to resolve collective action problems cooperatively, while others are not. Networks of personalised relationships are characterised by low enforcement costs, due to reputation and admonishment, 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, successful strategies are 'nice' ones where the player is never the first to defect (Axelrod, 1984), which assumes some initial level of trust. After the first play, successful strategies simply echo the behaviour of the other behaviour, reciprocating cooperation for cooperation, or defection for defection (tit-for-tat strategies). If cooperative individuals expect others to cooperate they are more likely to engage in cooperative endeavours, setting in motion a 'virtuous circle' in which trust promotes cooperation and cooperation promotes trust (Putnam, 1993).

### **Cooperation and the game theoretical approach**

This section extends the prisoners' dilemma to more complex situations, drawing from Ostrom's (2000a) framework of a behavioural theory of collective action and Lubell & Scholz's (2001) model of cooperation in collective heuristic action. 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, 2000b). Ostrom (2000b) 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) and Ostrom (2000a) identifies reasons why cooperation prevails, largely due to communication within the network. Communication is made effective through, exchanging mutual commitment, increasing trust, creating and reinforcing norms and developing a group identity. Individuals use communication opportunities to lash out verbally at unknown individuals who did not follow mutually agreed strategies.

**Figure 2: The Communication Process**

Source: Adapted from Ostrom, 2000b

In non-cooperative game theory, simple communication is not sufficient to escape the dilemma. From this perspective face to face communication should make no difference in the outcomes achieved in social dilemmas. Contrary to this perspective, empirical findings show that substantial increases in the levels of cooperation are achieved when individuals are allowed to communicate face to face (Ostrom, 2000b:483). Communication increases the rate of cooperation. Therefore the question arises as to whether it is a problem of asymmetric information that leads to non-cooperative situations or whether there are other processes affecting communication. During the communication process, social capital is enhanced or eroded through the establishment of trust, reputation and reciprocity (Ostrom, 2000a); learning is occurring at many different levels (individual, organisational, societal); communication is affected by bounded rationality and opportunism of different actors; and historical norms and values will affect behaviour and participation rates in the process. But communication does not spontaneously result in a governance structure, although communication is required to internalise the set of rules for each individual – to internalise the governance structure (figure 2).

Annen (2002:451) qualifies the definition of social capital by introducing a player's reputation for being cooperative within a social network, where a social

network is a set of players and a pattern of exchange of information and/or goods among the players. Each player not only has to behave cooperatively, but others have to know that this is the case. Therefore it becomes important that other players know the trustworthiness, or reputation, of each player. From this perspective, the unit of analysis is on an individual level, as the beneficiary of social capital is a single player, where a measure for the value of social capital in total for a given community or country is the aggregation of all the individual benefits. 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 collective action heuristic model of individual decision making to the situation in CEE, the most important element of reciprocity 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. Equally, if an individual has a bad experience with their neighbour or family member in a situation of cooperation, this can affect subsequent behaviour and attitudes toward cooperating - a process of social learning. Reciprocity is an especially important class of norms for Ostrom (2000b:489). Reciprocity is a basic norm taught in all societies, and in these 'games' there is a need use retribution to some degree to punish a defecting player. Individuals do not inherit particular reciprocity norms via a biological process. Ostrom's argument is that 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) respond to Ostrom's (2000b) request to develop a behavioural theory of collective action by exploring the behavioural relevance of reciprocity and niceness in explaining cooperation, although in laboratory collective action experiments. They include the interaction between collective action strategies, past experience and institutions. 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. A collective action heuristic combines the introspection heuristic with bounded rationality (*ibid.* p.161). This can be seen as a constrained experiential learning process (figure 2).

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. However, as strategic complexity exists and reciprocity becomes more difficult to detect in real life situations of many actors, the heuristic process that individuals use to cope with this complexity becomes more important. Also, the evolutionary process which would lead to cooperation assumes that the game is played by the same actors over time, which is not the case.

## Conclusion

This 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 this paper 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 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. A difficulty with these models is that they do not incorporate time very well. This will prohibit an inter-temporal analysis of social capital. The variables within the model are in a constant state of flux – norms and values change, trust can turn to mistrust and vice versa. This can cause individuals to cooperate in some situations, but not in others, so an explicit recognition of a change in social strategy should be incorporated.

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 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. How communities adapt and organise themselves within these macro structures through collective heurism is worthy of further investigation. The propensity to cooperate is determined by local organisation and localised responses to social dilemmas.

## **References**

- Annen, K. (2002). “Social capital, inclusive networks and economic performance”. *Journal of Economic Behaviour and Organisation* 50: 449–463.
- Axelrod, R. (1984). *The Evolution of Cooperation*. New York, Basic Books.
- Bourdieu, P. (1986). “The forms of capital” in: J.G. Richardson (ed.) *Handbook of Theory and Research for the Sociology of Education*. London: Greenwood Press, pp 241–258.
- Bowles, S., and H. Gintis (2002). “Social capital and community governance”. *The Economic Journal* 112: 419–436.
- Brehm J., and W. Rahn (1997). “Individual-level evidence for the causes and consequences of social capital”. *American Journal of Political Science* 41: 999–1023.
- Coleman, J. (1988). “Social capital in the creation of human capital”. *American Journal of Sociology* 94: 95–120.
- Cook, K., E. Rice, and A. Gerbasi (2004). “The emergence of trust networks under uncertainty: the case of transitional economies – insights from social psychological research” in: Kornai, J., B. Rothstein, and S. Rose-Ackerman (eds.), *Creating Social Trust in Post-Socialist Transition*. New York: Palgrave Macmillan.



- Dowley, K., and B. Silver (2002). "Social capital, ethnicity and support for democracy in the post-communist states". *Europe-Asia Studies* 54: 505–527.
- Fidrumuc, J., and K. Gerxhani (2004). *Formation of Social Capital in Eastern Europe: Explaining the Gap vis-à-vis Developed Countries*. Paper presented at the XVIII Annual Conference of the European Society for Population economics. Bergen, Norway, June 10–12, 2004.
- Flap, H. (2002). "No man is an island: the research programme of a social capital theory" in: Favereau, O., and E. Lazega (eds.), *Conventions and Structures in Economic Organisations: Markets and Hierarchies*. Cheltenham: Edward Elgar.
- Fukuyama, F. (1995). *Trust: the Social Virtues and the Creation of Prosperity*. New York: The Free Press.
- Grootaert, C., D. Narayan, V. Nyhan Jones, and M. Woolcock (2004). *Measuring Social Capital: An Integrated Questionnaire*. Washington: The World Bank, Working Paper 18.
- Hann, C., and E. Dunn (1996). *Civil Society: Challenging Western Models*. London: Routledge.
- Hazleton V. and W. Keenan (2000). "Social Capital: Reconceptualising the Bottom Line". *Corporate Communications* 5(2): 81-86.
- Healy, T. (2002). *The Measurement of Social Capital at an International Level*. Social Capital: The Challenge of International Measurement Series of the Organisation for Economic Co-operation and Development (OECD). Paris: OECD.
- Hurrelmann, A. (2004). *Analysing Land Agricultural Markets as Organisations. An Empirical Study in Poland*. Berlin: ICAR discussion paper 3/2004.
- Kornai, J., B. Rothstein, and S. Rose-Ackerman, (eds.) (2004). *Creating Social Trust in Post-Socialist Transition*. New York: Palgrave Macmillan.
- Kunioka, T., and G. Woller (1999). "In democracy we trust: social and economic determinants of support for democratic procedures in Central and Eastern Europe". *Journal of Socio-Economics* 28: 577–596.
- Lovell, D. (2001). "Trust and the politics of postcommunism". *Communism and Post-Communism Studies* 34: 27–38.
- Lubell, M., and J. Scholz (2001). "Cooperation, reciprocity, and the collective-action heuristic". *American Journal of Political Science* 45: 160–168.
- Mateju, P. (2002) "Social capital: Problems of its conceptualization and measurement in transforming societies". Paper presented at the OECD-ONS Conference on Social Capital Measurement, London.

- Mihaylova, D. (2004). *Social Capital in Central and Eastern Europe – a Critical Assessment and Literature Review*. Budapest, Centre for Policy Studies, Policy Studies Series.
- Miller, W., S. White, and P. Heywood (1998). *Values and Political Change in Postcommunist Europe*. Basingstoke: Macmillan.
- Mishler, W., and R. Rose (1997). “Trust, distrust and skepticism: popular evaluations of civil and political institutions in post-communist societies”. *The Journal of Politics* 59: 418–451.
- Nooteboom, B. (2002) *Trust: Forms, Foundations, Functions, Failures and Figures*. Aldershot: Edward Elgar.
- OECD (2001). *The Well Being of Nations: The Role of Human and Social Capital*. Paris: OECD.
- Ostrom, E. (2000a). “Collective action and the evolution of social norms”. *Journal of Economic Perspectives* 14: 137–158.
- Ostrom, E. (2000b). “A behavioural approach to the rational choice theory of collective action” in McGinnis M.D. (ed), *Polycentric Games and Institutions*. Ann Arbor: Michigan University Press, pp 427–521.
- Paldam, M., and G.T. Svendsen, (2000). “Missing social capital and the transition in Eastern Europe”. *Journal for Institutional Innovation, Development and Transition*. Available at [http://www.hha.dk/nat/WPER/00-5\\_gts.pdf](http://www.hha.dk/nat/WPER/00-5_gts.pdf).
- Portes, A. (1998). “Social capital: its origins and applications in modern sociology”. *Annual Review of Sociology* 24: 1–24.
- Putnam, R. (1995). “Bowling alone: America’s declining social capital”. *Journal of Democracy* 6: 65–78.
- Putnam, R. (1993). *Making Democracy Work. Civic Traditions in Modern Italy*. Princeton NJ: Princeton University Press.
- Raiser, M., A. Rousso, and F. Steves (2004). “Measuring trust in transition: preliminary findings from 26 transition economies” in J. Kornai, B. Rothstein and S. Rose-Ackerman (eds.), *Creating Social Trust in Post-Socialist Transition*. New York: Palgrave Macmillan.
- Rothstein, B., (2004). “Social trust and honesty in government: a causal mechanisms approach” in Kornai, J., B. Rothstein and S. Rose-Ackerman (eds.) , *Creating Social Trust in Post-Socialist Transition*. New York: Palgrave Macmillan.
- Sik, E., and B. Wellman (1999). “Network capital in capitalist, communist and post communist countries” in B. Wellman (ed.), *Networks in the Global Village. Life in Contemporary Communities*. Boulder: Westview, pp 225–253.
- Swain, N. (2000). *The Rural Transition in Post-Socialist Central Europe and the Balkans*. Working Paper No. 9. Halle: Max Planck Institute for Social Anthropology.

- Theesfeld, I. (2004) "Constraints on collective action in a transition economy: the case of Bulgaria's irrigation sector". *World Development* 32: 251–271.
- White, H.C. (2002). *Markets from Network: Socioeconomic Models of Production*. Princeton N.J.: Princeton University Press.