THE PAST AND FUTURE: SOCIAL CONTRACT, SOCIAL POLICY AND SOCIAL CAPITAL

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Social Contract

Early social theorists (Thomas Hobbes, John Locke, and Jean-Jacques Rousseau) were intrigued by the notion of order and the mutual obligation it entails. For them, a critical part of social order is the relation between the ruler and the ruled, which includes collective agreement on the criteria for distinguishing right behavior from wrong, and enforcing right action. Why do the vast majority of people do what they are supposed to do? Hobbes addressed the question by theorizing what he felt separated "civilized" society from savagery. The "state of nature," according to Hobbes, was based on each person gaining the most possible on an individual basis, resulting in a life that was "solitary, poor, nasty, brutish and short." Only when individuals, through a social contract, give up their individual liberty to a sovereign committed to defending the subjects' lives in exchange for obedience to the sovereign's rules, does order, and thus security, emerge. The Hobbesian argument justifies the power of the sovereign. If citizens do not obey the rules, harsh and even extreme punishment is justifiable, indeed, necessary.

Locke differed from Hobbes in his view of history. He argued that the rights of life and property were recognized under natural law. Insecurity arose from lack of clarity as to who was to enforce those rights. The social contract involves individuals agreeing to obey the laws of the state in exchange for the state's protection of the person and property. Locke reasoned that, when the sovereign did not provide the appropriate protection, overthrow of that sovereign was justifiable.

Rousseau saw history as a movement toward increasing the power of reasoning, and the sense of morality and responsibility. When individuals agree, for the sake of mutual protection, to surrender individual freedom of action and establish laws of government, they acquire a sense of moral and civic obligation. This implied a constant negotiation between the state and its citizens to maintain legitimacy, and thus, social order. When government violates the social contract and loses its legitimacy, revolution is justified. Rousseau provided the intellectual basis for the French and American Revolutions. We are currently in a situation of renegotiation—not revolution—of the social contract. The thrust of the Contract with America is a shift from an emphasis on the rights of life to the rights of property. For that contract to replace the previous understanding of the relation of the state to its citizens, access to property, and the security it entails, will have to be as important as ensuring that those who now have property keep it. The balance of what government should provide for citizens—and citizen obligations to the state—are now in negotiation.

Contracts are ultimately based on trust that the parties to the contract will live up to their obligations. What is needed for such trust to develop? One prerequisite is a degree of social and economic equality. The nineteenth century German social and economic theorist, Max Weber, argued that the "unfettered" market contributes to inequality; thus wealth and power accumulate rapidly into the hands of a few. An important role for public policy is to compensate for the "market failure" which is the result of structural inequality, despite a strong counter tendency for policy to codify and make even more severe existing inequalities.

When the state fails to ensure a level playing field, civic culture does not flourish. Absent the state's guarantee of equity (enshrined in the U.S. Constitution as equality of opportunity, not necessarily of outcome), civic culture is beset by social distinctions which reduce the level of trust, and substantially increase the transaction costs of conducting daily community life.

Important key questions for policy are: 1. How to make it profitable to do what is moral (rational self-interest reinforced by public policy), and 2. How to nurture a civic culture. A strong civic culture is a prerequisite for a common moral order (Putnam, 1993b).

Our analysis of policy is based on the notion of a common moral order and the norms of mutual trust and reciprocity which underlie it. Using the terminology of other scholars, we call that "social capital." While Coleman and others use that term to refer to resources wielded by individuals, a concept based on rational choice and game theory, others (Portes and Sensenbrenner; Granovetter) approach social capital, or embeddedness, in terms of the formation of collective conscience, which provides a social, rather than individual, basis for action.

Public policy has, in general, ignored social capital, choosing instead to try to enhance other resources: financial/manufactured resources, human resources, and, more recently, environmental resources. (See C. Flora for a discussion of the different kinds of capital that emerge from these resources). As a result, the unintended consequence of many policies is to decrease social capital and undermine the social structure (*not* individual motivation) that contributes to civicness and the common moral order.

Attempts, such as efforts by the religious right to impose a common moral order, which ignore the importance of social embeddedness as a structural prerequisite, further diminish social capital, and are thus counterproductive. The level of all resources available to a society declines.

Putnam (1995) uses longitudinal survey data to document the decline in civic engagement and levels of trust of individuals in the United States, which he summarizes in his title, *Bowling Alone*. He traces the decline of bowling leagues (and the accompanying decline in sales of food and drink at bowling alleys), and the *increase* in number of lines bowled, to the individualization of leisure and the separation of the individual from community. This concern is not with leisure but with democracy.

Based on Roper polls, participation in town and school meetings, writing Congress, attending rallies or speeches, being a member of any civic committee, or doing volunteer political party work declined between 29 percent and 56 percent between 1973 and 1993. Weekly church attendance has declined between 1950 and 1991, although there are significant year to year fluctuations.

Volunteerism, measured through involvement or membership in selected civic organizations, such as the Elks, Federated Women's Clubs, Lions and League of Women Voters, is decreasing. Volunteers in Scouting and the Red Cross are also down. Membership first declined in women's organizations as economic shifts and global restructuring basically required two incomes in households during the inflationary times of the 1970s. Participation in men's organizations followed suit in the 1980s, when for many families, particularly in the working class, even two incomes in a household were no longer adequate. Parent-Teacher Association membership is down from 1960 to 1992, even controlling for number of school age children.

Spending social evenings with neighbors more than once a year (not a stringent indicator of neighborliness) declined about 12 percent between 1974 and 1995. Decreased participation in formal organizations is not replaced with informal interactions.

Finally, social trust has declined precipitously. Distrust of government peaked at Watergate, and, by 1992, had returned to the Watergate level. Fifty-eight percent of the U.S. public agreed with, "Most people can be trusted," as opposed to, "You can't be too careful in dealing with people" in 1960, compared to 41 percent in 1975 and 37 percent in 1993. If social capital depends on mutual trust, certainly on an individual level, it is declining.

This paper attempts to show the need for policy to take into account the balance among the various resources in society, particularly at the community level. We argue that, in the past, policies which have sought to privilege a single resource and to maximize it, have reduced social capital—and thus the long term sustainability of the social system. By reducing social capital, often in the name of short-term problem solution which maximizes the return to a single resource, the social basis of the relation between citizen and state deteriorates, and extreme reactions—from the bombing of buildings to the Posse Comitatis—emerge.

There is a tendency to judge community progress in terms of the increase in financial and manufactured capital, in part because it is easy to measure. Financial and manufactured capital is either already monetized or easily expressible in monetary terms. Only if policy makers and citizens articulate additional goals for policy can alternative policies be developed. An unarticulated goal is that of enhancing social capital, trust and reciprocity. By articulating it, we make it legitimate to measure it, and, as is pointed out in *Reinventing Government*, what we measure is what we do. And as devolution is put into place, it is critical that we measure multiple goals at the community level.

There are communities of interest and communities of place. A community of interest is composed of people who interact with each other, but who may not be together in the same place except for short periods of time. The National Public Policy Education Committee is a community of interest. Many members of that group are particularly concerned about the second type of community, community of place. The community of place is composed of people who live in and interact with one another within a geographic area. This geographic area may be urban or rural.

Communities of interest can be very powerful. They are becoming more powerful as communities of place become more unstable. Communities of interest are able to mobilize a particular kind of capital that is a sub-category of social capital: political capital. About two billion dollars will be added to the Pentagon's budget for 1996-97 for 20 more stealth bombers, which are bombers the Air Force does not want because of the costs of maintaining those planes once they are built and commissioned. Construction of these bombers would require an additional wing in the Air Force. That policy decision has been a carefully orchestrated campaign by Northrup, at the center of a community of economic interest. The desire of the corporation is to maintain profits, which is most easily done by maintaining existing government contracts with their friendly, cost-plus provisions. They used focus groups to find out what sells stealth bombers best. The answer—fewer American lives would be lost. The media campaign to retain the funding for the stealth bomber builds on this. Ads with this theme appeared on television and in newspapers in July of 1995. A three-pronged approach was launched: 1. mass advertising, 2. letter writing to Congress by all the employees, subcontractors and sub-subcontractors, and 3. direct lobbying activities supported by handsome campaign contributions (*Morning Edition*, National Public Radio, July 25, 1995).

The result is money diverted from programs involving people (human capital) to programs involving things (stored manufactured resources). Different forms of capital are privileged by this choice of funding priorities. Communities of interest can mobilize a great deal of power, and when they do so, it may or may not be in terms of what will better serve a community of place. Clearly the sub-subcontractors are better off in the short-term, if they continue to manufacture the buttons that go on the panel of the stealth bomber. But in the long-term an inability to diversify and to become economically flexible may, in fact, jeopardize their jobs in the future, more than converting to a post cold war economy now rather than later.

Social Capital

Social capital is defined as networks of reciprocity and mutual trust, involving shared symbols and collective identity. (A similar definition is offered by Putnam, 1993b: 35-36.) Social capital is important for strengthening communities of interest and communities of place.

Social capital cuts transaction costs (North). When neighbors interact regularly and a sense of trust develops among them, the number of lawsuits filed by one against another is low. One tends not to need expensive liability insurance, extensive credit checks, complicated contracts, or to seek out formal enforcement mechanisms (police, courts, jails) when social capital is in place. Currently, communities that have the advantage of high levels of social capital must still pay the transaction costs of other communities where mutual trust and reciprocity are low. Hopefully, devolution of power from the federal to state to local level will ameliorate that problem.

Scholars who base their discussion of social capital on rational action theory—related to public choice theory—conclude that the decline in social capital and the tendency not to invest in social capital creation is because of the public goods character of social capital, which means individuals capture little of the asset enhancement of their investment (Coleman). We argue that there are structural reasons, rather than reasons of individual motivation, that are biased against the formation of social capital. For example, the way that financial and manufactured capital is enhanced can either help or hurt social capital development. When programs are delivered in a top-down fashion, with the decisions and resources coming totally from outside the community, social capital decreases and dependency increases.

How might we characterize social capital in communities, a principal locus for building national social capital? Social capital has a variety of configurations. Social capital can be horizontal, hierarchical or non-existent.

Absence of Social Capital

Absence of social capital is characterized by social fragmentation. In these communities, there is little trust, and, as a result, little interaction. Almost all interactions are market relations, characterized by contracts—and law suits.

Social capital is often absent in bedroom communities, rural communities which become a low-rent haven for jobless urbanites, some tourism communities, boom-bust communities, such as mining towns and some timber towns, and many central city neighborhoods (including those undergoing gentrification or which suffered urban renewal). Such communities tend to have high population turnover. Many have high levels of conflict, carried out on the streets in poor communities, and in the courts in rich ones.

When middle and upper class residents lack social capital, they are able to substitute financial and manufactured capital for social capital: private guards, fenced neighborhoods and elaborate security systems. If you are wealthy, social capital decline can be basically ignored and replaced through purchase of manufactured security resources and separation from the "riffraff."

However, if you are poor, and there is an absence of social capital in your community or neighborhood, you are subject to violence, anarchy and fear. When resources—both local and outside—are devoted to encouraging the neighborhood to work together, as occurred in the west central neighborhood of Spokane, Washington, with the help of Washington State Extension, changes can happen to decrease violence and increase community empowerment: community policing, neighborhood watch, youth programming, neighborhood festivals, etc.

Putnam (1993a) showed that areas in Italy with low levels of social capital (concentrated in southern Italy) had lower levels of government efficiency, lower levels of satisfaction with government, and slower rates of economic development than did provinces with high levels of social capital (central and northern Italy). Further, the citizens of these areas with low levels of social capital did not trust others to follow the established rules, and were thus less likely to follow them themselves. As a result of this heightened level of distrust, there was a high demand for more law enforcement, and more demand to lock up criminals for longer periods of time—a societal level manifestation of substituting manufactured capital for social capital.

There is a role for public policy where there is an absence of social capital. That role is not simply more police and more prisons. It is critical that resources be focused on increasing people's sense of mutual trust and reciprocity. Since patterns of reciprocity and trust require time to establish themselves, people who live in these areas have to have enough economic security and sense of place so they do not frequently move. The kind of economic development which local and state governments encourage has an impact on social capital. Attracting low wage firms which thrive on high labor turnover will diminish social capital and require greater expenditures of financial/manufactured capital and of human capital (social service personnel, in particular). Citizens of Spencer, Iowa, convinced their city council not to rezone, so that Montfort could convert an existing facility into a packing plant, because they had examined the experience of nearby Storm Lake (Brack). (The issue was completed by the fact that Mexicans, Central Americans and other foreigners are regularly recruited to work in the plants. Those favoring the plant accused the opponents of racism in a tumultuous city council meeting where rezoning was rejected (*Des Moines Register*, ibid.). In Storm Lake, high employee turnover at the IBP plant resulted in major increases in uncompensated health care, especially at the County Hospital, and a doubling of emergency room visits in 10 years. (Employees do not receive health benefits from IBP until they have been employed six months; the higher the turnover rate, the greater the proportion of workers and their families without the means to pay for health care.) Perhaps the most disturbing change for long-time residents (and others) was the increase in the crime rate and in insecurity (Grey).

Policies which encourage and assist in broadening community participation in decision making regarding the kind of industries to be recruited and the kind of economic development to be pursued, would in the process build social capital.

Our research suggests that, within non-metropolitan areas of the U.S., larger communities and counties are more likely to be successful in the recruitment game than are smaller ones (J. Flora, et al.). On the other hand, economic self-development can be successfully practiced by localities of all sizes. Hence, a state program with no particular size bias, such as one providing technical and organizational assistance and perhaps seed capital for self-development enterprises, could positively affect social capital by encouraging cooperation of different sectors of the community. It would also contribute to greater population stability in both urban and rural areas than would an incentive program for industrial recruitment. Recruitment programs often create jobs—but recruit from the outside to fill them. Often there is high population turnover. Self-development tends to provide jobs for those already in the community. This increases the potential for building social capital.

Hierarchical Social Capital

Hierarchical social capital occurs in communities where power is clearly concentrated and economic inequalities are solidified into strong social distinctions. Built on norms of reciprocity and mutual trust (or mutual obligation, if not actual trust), those relationships are vertical rather than horizontal. Traditional patron-client relationships, typical of urban gangs (Portes and Sensenbrenner), Sicilian "family" or "boss"-run political machines are created. Those at the bottom of the hierarchy—who obviously are beholden to the few at the top—are the majority of the population in such communities. As a result, the receivers of favors owe strong loyalty to their "patron" when time comes to vote for public office, to collect from a loser in the numbers racket, or to settle a score with a rival gang. As a result, horizontal networks, particularly outside the sphere of influence of the patron, are actively discouraged. Dependency is created and mistrust of outsiders is generated. Reciprocity occurs only within kin groups, and not across them. This type of social capital is prevalent in persistent poverty communities (Duncan; Duncan and Lamberghini).

With hierarchical social capital, many activities which are public in other communities are privatized. Public schools in Prince Edward County, Virginia, were closed for six years in the 1960s rather than integrate. In Cairo, Illinois, in the 1960s, the public swimming pool was closed rather than let "the wrong kind of people" swim in it; the right kind of people (i.e., those with money and power) have their private club. In an Iowa community where a meat packing firm exists, the local newspaper editor led a campaign to defeat a public golf course, thereby maintaining the exclusivity (keeping out the workers through the high membership fee) of the private course, of which he was a stockholder (C. Flora). Such privatization of recreation reinforces hierarchical social capital. When these resources are privatized, they can then be exclusionary, thereby reducing interaction among diverse groups of citizens on equal social footing, and reinforcing existing power relationships.

Looking at community-based recreation options may seem trivial, but it has tremendous impact on social capital. Reciprocity means mutual dignity and respect. When one group of the community is reduced to feeling that its members are not treated with dignity, and the only way they can survive is by behaving in ways that offend their dignity, then the power differential is felt in a very personal way.

Fair housing laws, laws against redlining, and welfare reform which would encourage asset accumulation (rather than having asset limits, as do Aid to Families with Dependent Children, Medicaid, and rent-supplement housing programs) reduce poverty and/or economic and social inequality (see Michael Sherraden's essay in this volume). Through our elected representatives, we can establish policy that either rewards consumption or investment (savings).

Horizontal Social Capital

Horizontal social capital implies egalitarian forms of reciprocity. It does not imply a flat structure, or equal wealth, education or talents. Instead, there is a wide definition of resources. Not only is each member of the community expected to give (and gains status and pleasure from doing so), but each is expected to receive as well. Each person in the community is seen as capable of providing any other member of the community something of value. Contribution to collective projects, from parades to the volunteer fire department and Girl Scouts, is defined as a "gift" to all. Norms of reciprocity are reinforced, but payback to the donor is not required or even expected.

Horizontal social capital is that in which all community members treat each other with dignity. Mutual trust and reciprocity is based on relative equity, not differential power. It does not mean that everyone is equal. It does not mean there are no leaders. It does not mean that controversies do not arise—in fact, they should. But controversies are resolved so that permanent enmities and rigid positions do not emerge, which remain regardless of the issue. Horizontal social capital means that there are a series of structures in place that help facilitate people getting together to build mutual trust, and which allow for reciprocity (for more detail, see Flora and Flora). Public policy can either support or discourage these structures.

Much government regulation tends to be heavy-handed, based on one-size-fits-all for ease of enforcement. As a result, it privileges the large, who are the ones who make the regulations to fit what they can conform to, over the small, who do not make the regulations. Research on how standards are set reveals the role of industry in setting the standards that impact them. For example, one of the problems in rural development is that small niche markets that could be served by alternative animal industries, such as specialty fish processors or specialty meat processors, with links to "green" producers, are unable to purchase the expensive equipment and plant conditions required by law. Standards are not based on the actual bacterial count in the meat (the end), but on manufactured capital, such as the distance of the drinking fountain from the kill floor (a means to that end, but perhaps not the most efficient one). This penalizes the small producer and favors large enterprises.

A rural development example comes from our study of Galena, Alaska. A native Alaskan entrepreneur attempted to commercialize smoked salmon. There is no known instance of anyone becoming ill from fish cured in the traditional Athabaskan manner, but because of problems with e-coli in lox on the east coast—a completely different smoking process—he was required to install expensive processing machinery. Though he eventually succeeded in becoming licensed, with considerable help from state government and from the extension service, others with less capital and fewer connections were precluded from following his example.

Social capital is enhanced when there is vision of the ends and flexibility in terms of means. Fortunately, there are some government efforts which seek to reduce unnecessary or inappropriate regulations. One example is the CERT program, targeted at timber communities in the Pacific Northwest. First, the Forest Service assisted with strategic planning in communities experiencing sharp declines in income from logging and milling. The community could then choose a government agency to run interference for the community in putting together federal and state programs in such a way that the community could more readily fulfill its strategic plan. The state Rural Development Councils are an example of a public-private effort which seeks to achieve similar results by facilitating collaboration among federal, state and local governments, and the private for-profit and non-profit sectors. A key area of attention of the National Rural Partnership is to identify regulatory impediments to rural development, which often discount social capital.

Conclusions

Social capital is a necessary but neglected aspect of public policy. The different ways we invest in financial/manufactured, human, and environmental capital can have a major impact on social capital, either reinforcing existing power structures (hierarchical social capital), creating dependency on a central authority (lack of social capital), or making investment decisions based on widespread community participation and vision-building (horizontal social capital). Social capital can be created in communities of place and communities of interest, and social capital in the two types of communities can reinforce or compete with one another.

Each form of capital can enhance the productivity of the other forms. Increasing social capital greatly cuts transaction costs, making other resource use more efficient. On the other hand, overemphasizing the value of a single form of capital can reduce the levels of other forms of capital. For example, overemphasis on generating financial and manufactured capital without regard to resulting pollution can reduce the value of human capital through negative impacts on health. It may also reduce environmental capital through destruction of soil and water quality. It could diminish social capital through by-passing local networks and replacing them with impersonal bureaucratic structures with top-down mandates. Attention solely to environmental capital can waste human capital, and decrease financial and manufactured capital.

More attention to social capital is appropriate at this time of democratization, devolution of government to local levels, decentralization of responsibility (if not authority) and privatization. As government is reinvented and the Contract with America is codified, social capital is critical for investing in other forms of capital, because it makes other forms of investment more efficient. Smaller bureaucracies are required, because less documentation, regulations and contract oversight is needed. Unfortunately, the creation of social capital, which requires trust and reciprocity, takes time, whereas top-down regulation, presumably, is achieved instantly.

Investment in social capital takes time, because simply forming a group is not enough. It is important that groups are diverse, inclusive and flexible within broad and permeable community boundaries. Flexibility means groups within communities, and communities within coalitions of communities can form and reform according to the concerns to be addressed. Communities need to form lateral linkages. Policies that foster different communities learning from each other can be particularly effective in building social capital.

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