

## Does it Pay Off to be trusting in Romania? Social Capital Effects on Income Distribution

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### Abstract

The idea that sustains the concept of social capital is reflected in the truism that economic activities requiring some agents to rely on the future actions of others are to be pulled off at lower cost in higher-trust environments. As such, higher-trust societies are characterized by allocating less resource for safeguarding individuals against being mistrusted in economic transactions. There is extended research literature that deals with the determinants of economic growth between countries and regions. The purpose of this paper is to strengthen the social capital literature, especially in the case of Romania where little research has been done in this domain. Using the World Values Survey database the paper provides a descriptive image on five dimensions of social capital as defined by the World Bank. Further, a correlation analysis is carried out for identifying which dimensions of social capital interact the most with the income variable of Romanian respondents. The results show that Romanians who engage in voluntary organization, who exhibit high degrees of generalized trust and who have a high degree of confidence in institutions tend to be placed in the higher income decile. Also, a higher placement in the income decline is characteristic to Romanians who use more than one source of information and communication.

**Keywords:** *Social Capital, economic growth, income distribution*

### Introduction

Extended research deals with identifying relevant dimensions and factors that foster economic growth between countries and regions. Going beyond the theoretical assertions, empirical research indicates several relevant variables that enable the process of economic growth: physical, human and social capital accumulation (Li et al, 2015), the technological diversification (Koren and Tenreyro, 2013) and technological complexity (Pintea and Thompson, 2007), the capability to produce and diffuse knowledge and innovation (Aghion and Jaravel, 2015; Fleisher et al, 2015), as well as the degree of liberalization of domestic and international markets (Thiago et al., 2015). Even though explaining economic growth is a hot topic in the field of economics, less attention is paid to the social context in which development and reform is promoted. By creating mechanisms of cooperation and trust at a micro level (within the firm) mezzo level (the market) and macro level (the state) social capital

is, at least from a theoretical point of view, a relevant variable that can help explain income growth and economic prosperity.

### **Literature review**

The notion of "social capital" has first drawn attention to its explanatory potential with the seminal work of Robert Putnam 1993. In his research about economic and governance performance of regions from the northern versus the southern part of Italy the Putnam finds associational activity (i.e membership in formal groups) as an important significant variable that is responsible for explaining disparities between regions.

The idea that sustains the concept of social capital is reflected in the truism that economic activities requiring some agents to rely on the future actions of others are to be realized at lower cost in higher-trust environments. As such, higher-trust societies are characterized by allocating less resource (i.e written contracts, sporadic litigations, allot secondary time to monitoring activities, pay less bribes, purchase limited private security services/equipment for property rights protection) for safeguarding individuals against being mistrusted in economic transactions.

Another advantage that high-trust generates is reflected in increasing investments and other economic activities. Examples supporting this assertion come from the perception of different stakeholders regarding opportunities and threats of the economic environment. As such in an environment that is characterized by high trust public statements regarding interest rates, nominal exchange rate, tax legislation are more credible and sustain a higher predictability of the business environment.

Knack and Keefer (1997) make one of the first and most seminal explorations regarding the economic payoff of social capital. The economic performance of 29 market economies is investigated within the lens of interpersonal trust, norms of civic cooperation and associations within groups. The results provided by the authors sustain that high trust societies will benefit from higher returns to education, higher incentives to innovate and to accumulate physical capital. Also, trust and civic norms can impact economic outcomes indirectly via the political channels. Civic participation of a large number of citizens could improve governmental performance and the quality of economic policies by shaping the political agenda

Empirical work on social capital argues that differences between regions and countries in the level and rate of economic and social development can be explained by differences in the available stock of social capital.

Following Durlauf and Fafchamps (2004) conclude that social capital acts as a network-based process that generates beneficial outcomes through norms and trust. The three main underlying ideas that characterize social capital reflect on:

- the favorable impact on economic outcomes as it can generate positive externalities for the members of a group;
- expectations and behavior are shaped by norms of shared trust and values supporting positive externalities for group members;
- social networks and associations as means of informal organizations is the birthplace of shared trust, norms, and values.

There is a vast theoretical literature regarding the dimensions of social capital. Comprehensive approaches on social capital reflect a multidimensional perspective analyzing various levels and units of analysis.

One of the most accounted instruments used for investigating social capital is the World Values Survey which gathers cross-sectional and longitudinal data on indicators of trust and civic norms. Scholars investigated the effect of social capital upon economic development hypothesizing either "Olson effects" (associations prevent growth through rent-seeking) or "Putnam effects" (associations facilitate growth by increasing trust).

Surveying the relevant literature we identify two strands of inquiries:

- On the one side, one strand of literature investigates if indeed high stocks of social capital reflected as high generalized trust levels and outspread civic engagement determine higher levels of economic growth (e.g. Beugelsdijk and van Schaik, 2005; Bjørnskov, 2012; Krishna and Uphoff, 1999; Ostrom, 2000; Uphoff, 2000).
- Another strand of literature focuses on finding the determinants of social capital: the impact of individual- and aggregate-level factors on the components on social trust and group membership (e.g.; Costa and Kahn, 2001; Glaeser et al, 2002; Rothstein and Stolle, 2001; Iyer 2005).

### **Methodology**

The definition of social capital under which the World Bank operates in the World Value Survey (WVS) connects institutions, relationships, and norms with the quality and quantity of a society's social interactions.

The underlying assumption that gives power to the notion of social capital refers to social cohesion as a critical force that can significantly influence economic prosperity and sustainable development. To this extent, social capital is it is the glue that holds institutions together. Specifically, the World Bank decomposes the notion of social capital in six dimensions:

- groups and networks – relevant dimensions: density of membership, diversity of membership, extent of democratic functioning, extent of connections to other groups ;
- trust and solidarity -relationships and social networks; trust extended to strangers (often on the basis of expectations of behavior or a sense of shared norms); trust in the institutions of governance (including fairness of rules, official procedures, dispute resolution and resource allocation) ;
- collective action and cooperation –reflected as volunteering behavior ;
- information and communication – as a prerequisite of maintaining and enhancing social capital;
- social cohesion and inclusion - on perceptions of social unity and togetherness in the community to specific experiences with exclusion from decision-making processes and/or services/project benefits;

### **Data**

The purpose of this study is to shed some light regarding the evolution of the stock of social capital in Romanian Regions. Furthermore we aim at identifying a correlation between incomes and social capital. The data gathered using the World Values Survey 1981-2008, provided by the World Bank. All data are available in raw form at: <http://www.worldvaluessurvey.org/WVSContents.jsp>

Social capital is explored under all six dimensions: networks, trust, collective action and cooperation, social cohesion and inclusion and information and communication. For each

dimension we identified a relevant question in the WVS with the aim of providing a general picture on the concept of social capital.

The selected questions and the code of the variables are presented as follows:

T1:- trust -*"Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?"*

T2: -voluntary organizations. - *"For each one, could you tell me whether you are an active member, an inactive member or not a member of that type of organization?"*

T3\_insi:- confidence in institutions -*" For each one, could you tell me how much confidence you have in them: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all?"*

CA\_decl: - declared political action -*"I'd like you to tell me, for each one, whether you have done any of these things, whether you might do it or would never under any circumstances do it."*

CA\_real- exercised political action -*"Have you or have you not done any of these activities in the last five years?"*

IS\_norms- social cohesion and togetherness *"following actions whether you think it can always be justified, never be justified, or something in between- Claiming government benefits to which you are not entitled; Avoiding a fare on public transport; Cheating on taxes if you have a chance; Someone accepting a bribe in the course of their duties"*

IC- information and communication *"People use different sources to learn what is going on in their country and the world. For each of the following sources, please indicate whether you used it last week or did not use it last week to obtain information (read out and code one answer for each): Daily newspaper, News broadcasts on radio or TV, Printed magazines, In depth reports on radio or TV, Books, Internet, Email, Talk with friends or colleagues"*

## **Results**

The first indicator T1:- trust presents an average value of 1,6329 which means that generally people tend to be trusting each other. Moreover, the median value of 2 shows that 50% of the population express rather trusting feelings towards others.

The second indicator T2: -voluntary organizations displays the involvement in voluntary organizations such as: religious organizations or religious, sport and recreation, education, art, music, unions, political parties, ecological organizations, professional associations, humanitarian or charitable organizations, consumer organizations, other (please specify). Affiliation as an active member to such organization receives a value of 2, affiliation as an inactive member receives the value of 1, and the value 0 is assigned by those who not belonging to such organizations. 50% of Romanians do not enroll in voluntary organizations. The average suggests that there is some involvement but rather as an inactive member. The high value of the variation coefficient suggests that Romanians who do decide to enroll in voluntary organizations are actively or inactively involved in more than one organization.

The third indicator of social capital T3- reflects institutional trust. A total of 16 institutions as: army, police, court house, government, parliament, civil servants, Municipality / Prefecture, Non- Governmental Organizations, European Union and the International Monetary Fund are scrutinized. The scale of appreciation varies from 1 – not trusting at all to 4- completely trusting. The maximum value should be 64. The average value displays a climate of confusion, hesitancy towards trusting institutions. The score of 35,70 suggest a irresolution of trust in the list of institutions, respectively a average grade of 2,23. The median value is just above

the average, as such 50% of Romanian grant institutions with a quandary value of trust of about 2,31.

CA\_decl: - declared political action - tackles the interest for participating in different forms of protest like: signing a petition, going on strike or attending legal demonstrations. A high score under this dimension suggest high civic disengagement. The maximum value is the reference here suggesting total disregard for expressing opinions in the public sphere. The average value suggest that people could be interested and persuaded in participating, but still future participation remains far away from their comfort zones.

Table 1.

Descriptive statistics on Social Capital Indicators

	T1	T2	T3_inst	CA_decl	CA_real	IS_norms	IC
Mean	1,6329	0,4155	35,7010	8,0124	6,1582	7,1616	9,9105
Median	2	0	37	8	8	4	11
Coefficient of	0,4995	3,5236	0,3657	0,5321	0,4341	0,9274	0,3459
Maximum	2	13	64	12	8	40	14

Source: own preluclration using the World Value Survey Database vawe 2005-2009, fieldwork 2005

CA\_real- exercised political action - refers to actually participating in the past 5 years to actions like: signing a petition, going on strike or attending legal demonstrations. The median value of 8 suggest that 50% of Romanians have never signed a petition nor have they participated in strikes or legal demonstrations.

IS\_norms- depicts social cohesion and togetherness. The variable adds perception of Romanians to following problems: acceptance towards receiving benefits you are not entitled to, using public transportation without buying tickets, not paying taxes if you have the possibility to elude the system and accepting bribery for doing ones job. A value of 10 will reflect total acceptance whereas a value of 1 speaks of total incrimination of such actions. The median value suggests that 50% of Romanians are totally against such behaviors. Interestingly the average value pin points a score of 7,16 placing this acts as somehow acceptable. The high coefficient of variance speaks of a certain category of population, that totally agrees to such behaviors whereas 50% of Romanians totally disagree.

The last dimension that was investigated - IC- information and communication - refers to using different media of information and communication (news papers, TV news, magazines, TV and radio reportages, books, the internet, talks with friends and co-workers). The value 1 is assigned by those who used such media in the past week and the value 2 reflects not using these information and communication instruments. The median value suggest that 50% of Romanians sue about 40% of the media depicted in the list.

The WVS offers data on income by assessing each individual to an income decile. The distribution of income observations is presented in table 2.

Table 2.

Descriptive statistics of Income Distribution

Decile	Number of observations
1,00	157,00
2,00	132,00
3,00	189,00
4,00	123,00
5,00	214,00
6,00	139,00
7,00	146,00
8,00	207,00
9,00	142,00
10,00	154,00
<b>TOTAL</b>	<b>1603,00</b>

Source: own prelucration using the World Value Survey Database vawe 2005-2009, fieldwork 2005

In this scale of incomes 1 indicates appartenance to the “lowest income decile” and 10 to the “highest income decile”. The relationship between income and social capital is depicted by using a correlation analysis which is presented in Table 3.

The data shows positive correlation between income on the one side and trust and collective action indicators on the other. The negative correlation of income is observed with the variable that presents information about information and communication.

The highest correlation is between income and institutional trust 20,27% correlation. This means that people who declare to trust institutions obtain incomes in the highest decile of the distributions. The higher the trust the higher the income.

Also a high correlation is observed between income and involvement in voluntary organizations and income and generalized trust towards others. Nevertheless the correlation values are low, remaining at about 13% of cases.

An interesting process can be investigate by looking at the correlation between the adherence to norms indicator and income. This indicator presents high values when people consider out of the norm behaviour to be justified and low values otherwise. We would expect a negative correlation that would sustain the social cohesion and inclusion dimension of social capital. The correlation analysis shows that attachment to “immoral” behaviour (i.e. accepting bribery, cheating taxes, claiming not entitled benefits, using services and not paying for them) is rather associated with higher income. As such, this dimension of social capital acts against the expected interpretation.

Table 3:

Correlation analysis between Social Capital Indicators and Income Distribution

	Income	T2	T3	T1	CA0	CA1	IS2	IC1
Income	1							
T2	0.1350	1						
T3	0.2027	0.0487	1					
T1	0.1090	0.0679	0.2110	1				
CA0	0.0296	-0.0836	0.0927	0.0224	1			

CA1	0.0044	-0.0575	0.0793	0.0419	0.6121	1	
IS2	0.1168	0.0981	0.1406	0.0380	0.0443	-0.0201	1
IC1	-0.1408	-0.0239	-0.0916	0.0166	0.0334	0.0766	-0.0317 1

*Source: own preluclration using the World Value Survey Database*

## 6. Conclusions

Using the World Values Survey database the paper provides a descriptive image on five dimensions of social capital as defined by the World Bank. Further. The correlation analysis that was carried out identified which of the dimensions of social capital interacts the most with the income variable of Romanian respondents.

The results show that Romanians who engage in voluntary organization, who exhibit high degrees of generalized trust and who have a high degree of confidence in institutions tend to be placed in the higher income decile, offering evidence in favor of the social capital literature. Also, a higher placement in the income decile is characteristic to Romanians who use more than one source of information and communication. The relationship between income and adherence to social norms speaks against the notion of social capital. From this point of view, Romanians who justify behaviors like: accepting bribery, cheating taxes, claiming not entitled benefits, using services and not paying for them tend to score higher in the income decile.

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